Guardian BANK

Your Preferred Bank

ANNUAL REPORT

2020

Guardian Bank is Regulated by Central Bank of Kenya

www.guardian-bank.com

TABLE OF CONTENTS

Homage to our late Chairman Dr. Maganlal Motichand Chandaria

The year gone by has been a year of irreparable loss to the Guardian Bank family. The founder Chairman of the Bank, Dr. Maganlal Motichand Chandaria (MM) departed for his heavenly abode on 31st July 2020 leaving an un-fillable void. He was a great visionary and an astute business man who was a great source of strength and inspiration to many, both in the Bank as well as the community at large.

Dr. Maganlal Motichand Chandaria, fondly referred to as "MM" was born in Ravalsar, India on 22nd June 1924. He hailed from a very humble family background and came to Kenya at the age of nine years. He started his career at the tender age of 12, in the year 1936, having no means for a high school education. He was mentored and supported by his maternal uncle, and he worked with him at Bhagwanji & Company until 1945.

In 1947 he started his own retail business with a capital of Kshs.5000/- only. With his keen nature, hard work, attention to detail and persistent will to succeed, he ventured progressively into various business avenues spanning banking, real estate, paper & petroleum industries. He was the founder and Chairman of the Dinesh Maganlal Chandaria (DMC) group of companies with interests across various sectors in Kenya and the United Kingdom. He built the Chandaria Group of Companies and was always involved in charitable and philanthropic work, which led to the establishment of his own charitable Trust, "The Magan Chandaria Charitable Trust".

Through the trust, our dear MM, contributed to poverty alleviation, advancement of religion and education, promotion of health care, governmental and municipal infrastructural support and other services beneficial to community and humanity, at large.

Some of the contributions made by him are as below:

- 'MM Chandaria Primary School'– In the year 1999, the Trust contributed and maintained a public owned primary boarding school in Ruaraka. The Nairobi City Council renamed it "MM Chandaria Primary School".
- Construction at the M.P. Shah Hospital, Nairobi:
  - The Suryakalaben Maganlal Chandaria Children's Medical Centre
  - The Dinesh Chandaria Medical Centre
  - The Doctor's Plaza
- Construction of the Dinesh and Mahesh Chandaria Auditorium at the Visa Oshwal Community Centre in Nairobi; which has a capacity of 650 people.
- Baba Dogo Road, Ruaraka – raised funds to lay an all-weather road through the entire Baba Dogo Road which proved extremely convenient to the large number of industries operating from the area.
- Drilling of boreholes in villages for many vulnerable communities and also in schools in Kenya, which has a profound impact on the lives of Kenyans.

His beneficence to the less privileged of our society was acknowledged by Prince Charles of the United Kingdom with an Invitation to St. James's palace in recognition of his contributions to "Help the Aged" and "HelpAge India", in June 2001 where MM met Prince Charles.

MM received various Lifetime Achievements Awards as below:

2013 - MM was awarded the Honorary Doctorate of Humanities Degree by the United Graduate College & Seminary, USA.
2014 - During the Think Business Banking Awards, MM was honored with the "Life Time Achievement Award"; a prestigious award in the Banking Industry.
2016 - MM was the recipient of the "Order of The Grand Warrior of Kenya (OGW)" from His Excellency the President of the Republic of Kenya, Uhuru Muigai Kenyatta.
2016 - MM received a special recognition award from the Oshwal community during the Oshwal Awards.
2018 - MM was conferred with the Honorary Degree, Doctor of Science (Honoris Causa) by Moi University, Eldoret.
2018 - MM was honored with "Life Time Achievement award" by the Oshwal Community during the Oshwal Awards.

During his lifetime, MM held notable positions of responsibility as follows:

Founder and Chairman
- Dinesh Maganlal Chandaria Group of Companies (DMC Group)
- Chandaria Group of Companies

Chairman
- Ruaraka Plots Owners and Industries Association
- Kenya Printing & Converting Association
- Visa Oshwal Community – Nairobi & Mombasa
- Oshwal Yuvak Sangh – Mombasa
- Saturday Club of Mombasa
- Kenya National Chamber of Commerce & Industry Mombasa

Committee Memberships
- Oshwal Centre Development Committee and Card Distribution Committee
- Masonic Lodge
- Oshwal Education and Relief Board
- Jain Swetamber Devawasi Sangh – Mombasa
- Kenya Port Authority – Mombasa
- Board of Governors of Ruaraka High School
- Lions Club of Mombasa (Treasurer)
- Indian Merchants Chamber – Mombasa (Secretary)

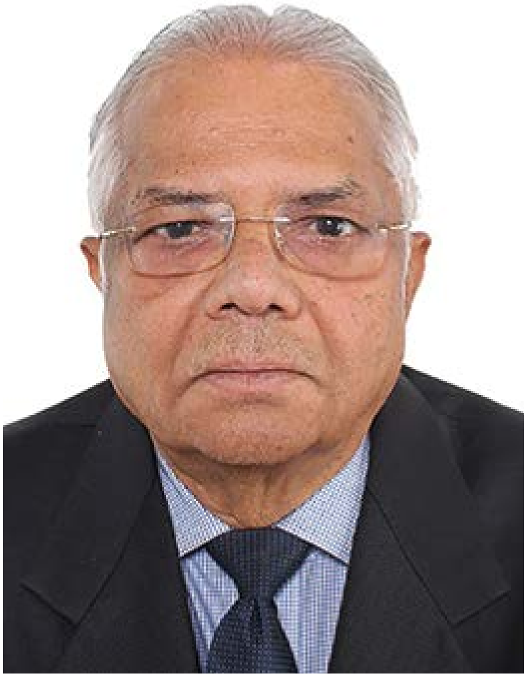
Trustee:
- Visa Oshwal Community
- Jain Social Group
- Hindu Council of Kenya

Service in Government, Private Sector and Civil Society

MM served on the following boards:
- Deposit Protection Fund - Central Bank of Kenya - Director
- Kenya National Chamber of Commerce and Industry – Vice Chairman, Mombasa Branch
- Kenya Printers and Converters Association - Trustee

We place on record our deepest appreciation and gratitude for his invaluable guidance and indefatigable spirit that steered the bank to the position that it is now occupying in the Industry.
"The greatest legacy anyone can leave behind is to positively impact the lives of others. Whenever you add value to other people's lives, you are unknowingly leaving footprints on the sands of time that live on" and this was the legacy, truly achieved by our dear MM.

Chairman's Report



I have the pleasure of presenting the 'Annual Report and the Financial Statements of the Bank for the financial year ending 31st December 2020' to our valued customers and well-wishers.

The Banking Industry faced unprecedented challenges due to COVID-19 pandemic during the second quarter onwards. The Central Bank of Kenya took various emergency measures to mitigate the hardship of those who suffered due to the pandemic and faced difficulty in honoring their commitments by allowing commercial banks, on certain terms and conditions, to grant an extension of repayment of principal/ interest for a period of one year, without impacting the classification/provision of the advance accounts. The sectors most affected were transport, real estate, hospitality and travel. Loans extended under 'mortgage' finance and personal loans have suffered heavily. In spite of several measures taken by the regulator and commercial banks, the industry has experienced an increase in non-performing loans. The asset quality and profitability across the industry has been negatively affected during the year 2020 as a result of the pandemic shocks. This has resulted into substantial increase in the loan provision by banks affecting their profitability. The Non-performing loans in the industry stood at 14.1% during the year against 12.0% during the previous year. However, with strong capital adequacy and liquidity in the industry, commercial banks could sustain their position.

The performance of Guardian Bank during the year under reference has been satisfactory in spite of the serious challenges faced by the industry due to the impact of the COVID-19 pandemic on the overall economic growth.

The Customer Deposits of the Bank stood almost at par with the previous year i.e. at Kshs. 13.212 billion. The Bank has not been very aggressive in mobilizing expensive fixed deposits but was concentrating on increasing the customer base and low cost deposits, since the level of liquidity of the Bank has been very high and funds could not be deployed profitably due to reduced level of credit uptake. The net advances of the Bank stood at Kshs. 7.894 billion. The asset portfolio of the Bank has been very robust as 82.41% of the advances have been classified as 'Normal'. The gross non-performing assets of the Bank stood at Kshs. 1.181 billion and the net non-performing assets stood at Kshs. 422.179 million which was 4.94% of the portfolio. Advances under this category are fully covered by adequate security.

The net profit of the Bank for the year ending 31st December 2020 stood at Kshs. 93.207 million after making provision for taxation and non-performing assets. The shareholders of the Bank, as has been the practice since the inception of the Bank, decided not to draw dividends and the entire profit has been ploughed back as retained profit to further strengthen the capital base of the Bank.

The performance of Guardian Bank has been very satisfactory in other areas too. The Bank has put in place strong measures while opening new accounts and to further monitor operations in the accounts, in order to ensure compliance with the guidelines/regulations of the Central Bank of Kenya and various other statutory authorities. The total shareholders' funds of the Bank stood at Kshs. 2.834 billion as against the statutory requirements of Kshs. 1.000 billion. The liquidity management of the funds of the Bank has been well under control. The Bank has been holding liquidity at an average of 50% against the statutory requirement of 20%. The Bank has been a net lender in the inter-bank market throughout the year. The surplus funds of the Bank have been well-invested.

The Board of Directors of the Bank consists of one Executive Director, two Non-Executive Directors and five Independent Non-Executive Directors; the composition of the board is within the stipulations of the Central Bank of Kenya. The board consists of members from the business community and professionals in various fields. In compliance with the CBK guidelines, the Board has constituted various Board Member Committees and Management Committees with specific duties and responsibilities. The Board and the various committees meet regularly as per the requirements of the 'Policy on Corporate Governance" as approved by the Board of Directors of the Bank.

The day to day affairs of the Bank are managed by qualified, experienced and dynamic professionals. The Bank has a dedicated workforce and the staff turnover is extremely low. Staff morale at the Bank is very high. The Bank has put in place various policy documents and working guidelines for overall smooth operations. The Bank is fully compliant in regard to various statutory requirements and follows the guidelines under both "Know Your Customer" and "Anti Money Laundering Provisions". The Bank has taken on board a reputed consulting firm to draw and implement the Bank's strategy – both short and long term development - of the Bank's Business. Some of the recommendations of the consultant have already been implemented.

The customer service extended at the branches is extremely satisfactory. The Management of the Bank have adopted an 'open door policy' creating efficiency in the decision making process.

I wish to place on record my sincere appreciation to the members of the Board for the excellent co-operation and valuable guidance in the day-to-day affairs of the Bank. I thank the Bank's Statutory Auditors Messrs. KPMG, Kenya who have been associated with the Bank since inception, for completing the annual audit of the Bank in time and for their continued support and guidance.

On behalf of the Board of Directors and myself, I sincerely thank the Governor of the Central Bank of Kenya, his team in the Bank Supervision Department, the Ministry of Finance and other statutory authorities for their co-operation and guidance.

The Bank has a truly dedicated team, some of whom have put in more than two decades of service in the institution. I thank each and every member of the "Guardian Family" for their dedication, loyalty and hard work and urge each of them to continue to give their best to the development of the Bank's growth.

On behalf of the Board of Directors, Management & Staff of the Bank and on my personal behalf, I sincerely thank all our customers and well-wishers for their continued support & patronage and assure them of our best and most efficient service at all times.
Please stay 'safe and healthy'.

With very warm regards,

Vasant Shetty.

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Dr. Maganlal M Chandaria*	Chairman (Deceased)
Mr. Vasant K Shetty	Managing Director
Mr. Hetul D. Chandaria	Executive Director
Mr. Bhavnish Chandaria	Non-Executive Director
Mr. Rajeshwar Sahi*	Independent Non-Executive Director
Mr. Shantilal R. Shah	Independent Non-Executive Director
Dr. Samson Ndegwa	Independent Non-Executive Director
Mr. Ajay Shah	Independent Non-Executive Director
Brig. (Rtd) Wilson A.C.Boinett	Independent Non-Executive Director

** British*

SECRETARY
Jophece Yogo
PO Box 69952 – 00400
Nairobi

AUDITOR
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 – 00100 GPO
Nairobi

LAWYERS
Ochieng', Onyango, Kibet & Ohaga Advocates
LG Menezes Advocates
Ogolla Okello & Company Advocates
Oyatta & Associates Advocates
Iseme Kamau & Maema Advocates
Kabiru & Company Advocates
Mutua Waweru & Co Advocates

CORRESPONDENT BANKS
Crown Agents Bank
BMCE Bank International
DCB Bank, Mumbai (India)
Standard Bank of South Africa Ltd
Bank of China –South Africa
HDFC Bank Ltd, (India)
Bank of India, Nairobi
KCB Bank Kenya Ltd, Nairobi

REGISTERED OFFICE/ HEAD OFFICE
Guardian Centre
Biashara Street
PO Box 67437 – 00100 GPO
Nairobi

BRANCHES

Biashara Street
Guardian Centre
PO Box 67437 – 00200
Nairobi

Westlands Branch
Brick Court House
Mpaka Road
PO Box 66568 – 00800
Nairobi

Mombasa Road Branch
Tulip House
PO Box 42060 – 00100
Nairobi

Mombasa Branch
Oriental Building
Nkurumah Road
PO Box 40619 – 80100
Mombasa

Ngong Road Branch
The Green House
PO Box 9822 – 00200
Nairobi

Nyali Branch
Links Plaza
PO Box 34375 – 80118
Nyali

Nakuru Branch
Parana House
Kenyatta Avenue
PO Box 18633–20100
Nakuru

Eldoret Branch
Beharilal House
Uganda Road
PO Box 7685 – 30100
Eldoret

Kisumu Branch
Amalo Plaza
Oginga Odinga Road
Central Square
PO Box 2816 – 40100
Kisumu

STATEMENT OF CORPORATE GOVERNANCE

Board/Management Committees

Tabulated below are Board/Management Committees, their composition and membership, functions and the frequency of meetings.

	Credit Committee	Audit Committee	Risk Management Committee	Strategy Committee	Human Resource Committee	Asset & Liabilities Management Committee (ALCO)	Business Continuity Management (BCM)
Composition	Non-Executive Directors Managing Director Executive director	Non-Executive Directors	Non-Executive Directors Managing Director Executive Director	Managing Director Executive Director Chief Executive officer, Senior Management	Managing Director Executive Director Chief Executive officer, Senior Management	Managing Director Executive Director Chief Executive officer & Senior Management	Senior Management
Chairman	Dr. Shantilal R. Shah	Dr. Samson Ndegwa	Mr. Raj Sahi	Mr. Hetul D. Chandaria	Mr. N. Sabesan	Mr. Hetul Chandaria	Mr. K R. Sahasranaman
Members	Mr. Vasant K. Shetty Mr. Hetul D. Chandaria Mr. Ajay Shah	Dr. Shantilal R. Shah Mr. Ajay Shah Mr. Bhavnish Chandaria Brig. (Rtd) Wilson A. C. Boinett	Brig. (Rtd) Wilson A. C.Boinett Mr. Vasant K. Shetty Mr. Hetul Chandaria Mr. Bhavnish Chandaria	Mr. Vasant K. Shetty Mr. N. Sabesan Mr. K R. Sahasranaman Ms. Lorraine Miranda Mr. Dipan Shah Mr. Joseph Wachira Ms. Shilpa Shah Ms. Zohreen Jeraj Mr. Joseph Ngure Ms. Lily Muriuki	Mr. Vasant K. Shetty Mr. Hetul Chandaria Mr. Sahasranaman Ms. Lorraine Miranda Mr. Joseph Wachira	Mr. Vasant K. Shetty Mr. N. Sabesan Mr. K R. Sahasranaman Ms. Lorraine Miranda Mr. Dipan Shah Mr. K. Solanki	Ms. Lorraine Miranda Mr. Dipan Shah Ms. Shilpa Shah Mr. Joseph Wachira Ms. Grace Nyende
Main Functions	Review and oversee the lending policy of the bank, sanctioning new/review credit proposals within the delegated authority, evaluate / review bank's risk under Credit Risk Management	To ensure that the financial statements are prepared in timely and accurate manner, review internal controls, review the management report of external auditors, comply with CBK inspection report, approve annual audit plan, and review internal audit report.	Review/ Implementation of Risk Management Framework - Review/Monitor and deliberation on risk mitigation approach. - Enhance overall risk awareness and control.	Drawing short term/ long term business strategy of the bank, preparation of annual business budget, monitoring the Performance of the branches vis-à-vis the target, marketing/ publicity, branch expansions.	Selection / recruitment, promotions, performance review, disciplinary issues, staff training, staff welfare, preparation/ updating of HR Policy of the bank.	Compliance with the legal and regulatory requirements, monitoring the liquidity of the bank, take investment decisions, fix rate of interest on deposit/ bank's lending rate, evaluate / review liquidity risk management, interest rate risk management, price risk management.	"BCM Team" is responsible for - Protecting the interest of stake holders and meeting CBK compliance/legal requirements, - Developing disaster mitigation and resumption strategies for various business process, - Allocate resources for Disaster Recovery centre - Creating awareness amongst staff about the Disaster Recovery Management, - Facilitating creation and updating of Business Continuity Policy.
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Monthly	Quarterly

Board Meetings Attendance

Names	10.03.20	24.06.20	22.09.20	09.12.20	% Attendance
Maganlal M. Chandaria	-	X	-	-	25%
Vasant K. Shetty	X	X	X	X	100%
Hetul Chandaria	X	X	X	X	100%
Rajeshwar Sahi	X	X	X	X	100%
Shantilal R. Shah	X	X	X	X	100%
Ajay Shah	-	X	X	X	75%
Samson Ndegwa	X	X	X	X	100%
Bhavnish D. Chandaria	X	X	X	X	100%
Brig(Rtd) Wilson A.C.Boinett	X	X	X	X	100%

X Present

\- Absent

Evaluation of the Board of Directors

An annual evaluation of the Board of Directors was undertaken in 2020 and every other year, as required by the Central Bank of Kenya.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of the Group and the Company, in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015.

1. Activities

The company is licensed to operate as a bank under the Banking Act.

2. Results

The results for the year are set out on page 23 and 25.

3. Dividend

The directors do not recommend the payment of a dividend (2019 – Nil).

4. Directors

The directors who served during the year and up to the date of this report are set out on page 9.

During the year 2020, there were 4 (2019 – 4) scheduled board meetings and the attendance by the directors is as tabulated on page 12.

Evaluation of board of directors was suitably carried out as required by Central Bank of Kenya regulations. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities. Overall, the results for the evaluation were positive and indicated that the Board and committees were effective and that no major changes were required.

5. Business overview

Performance

Despite various challenges and uncertainties, more particularly confidence crisis in the banking industry, which has led to movement of large volume of deposits from the private sector banks to bigger banks, Guardian Bank has performed fairly well.

Coronavirus (COVID-19)

The ongoing COVID-19 pandemic is causing major disruptions to community health and economic activity with wide-ranging impacts across many business sectors locally and globally. Additionally, many of the Group's and Company's customers have been impacted by the COVID-19 pandemic. As a result, during the year the Group and Company launched support packages for including the option of an up to twelve-month loan repayment deferral. Regulators and governments have implemented a broad range of measures to promote financial stability in response to COVID-19. The ongoing COVID-19 pandemic has also increased the estimation uncertainty in the preparation of the financial statements.

The Group and Company has made various accounting estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 and that the Group and Company believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group and Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

Risk management

The Group and Company has managed the risk associated with various segments fairly well by maintaining various business ratios above the statutory requirements. The Group and Company is committed to maintain a sustainable business growth and focus strongly on exemplary operational risk management and the concept of zero tolerance towards regulatory breaches. The Group and Company's approach to risk management, including financial risk management objectives and policies and information on its exposure to credit, liquidity, market and operational risk, is discussed in Note 4 of the financial statements.

Post balance events

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.

Future outlook

The year 2021 is expected to be a tough year globally. There will be a range of uncertainties in the external environment amid Covid 19 pandemic. The Group and Company will continue to deliver on its strategic agenda and live up to the expectations of the various stakeholders, its customers, staff, investors, regulators and the society.

6. Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Group and Company's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

7. Auditor

The auditor, KPMG Kenya, continues in office in accordance with Section 719 of the Kenyan Companies Act, 2015 and subject to Section 24 of the Banking Act (Cap. 488).

8. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2021.

BY ORDER OF THE BOARD

Jophece Yogo
Group and Company Secretary

Date: 12 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Guardian Bank Limited set out on pages 23 to 103 which comprise the consolidated and company statements of financial position as at 31 December 2020, and the consolidated and company statements of profit and loss and other comprehensive income, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the Group and Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Company and of its profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group's and Company's ability to continue as a going concern and have no reason to believe the Group and its subsidiaries will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 12 March 2021.

Rajeshwar Sahi
Director

Hetul D. Chandaria
Director

Jophece Yogo
Group and Company Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUARDIAN BANK LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Guardian Bank Limited (“the Group and Company”) set out on pages 23 to 103 which comprise the consolidated and company statements of financial position as at 31 December 2020, and the consolidated and company statement of profit and loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Guardian Bank Limited as at 31 December 2020, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor’s report is the Directors and statutory information, Statement of corporate governance, Report of the directors and Statement of directors’ responsibilities, but does not include the consolidated and separate financial statements and our auditor’s report thereon.

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

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

Responsibilities of directors for the consolidated and separate financial statements

As stated on page 8, the directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's and the Company'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 and/or Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company'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 Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company'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 consolidated and separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 interna control that we identify during our audit.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

(a) In our opinion, the information given in the report of the Directors on pages 14 to 15 is consistent with the consolidated and separate financial statements; and

(b) Our report on the consolidated and separate financial statements is unqualified.

The signing Partner responsible for the audit resulting in this independent auditor's report is CPA Alexander Mbai – P/2172.

KPMG Kenya

KPMG Kenya
Certified Public Accountants
PO Box 40612 – 00100
Nairobi, Kenya

Date: 26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000'	2019 KShs '000'
Interest income	5	1,536,992	1,625,107
Interest expense	6	(805,561)	(869,976)
Net interest income		**731,431**	**755,131**
Net fee and commission income	**7**	**93,389**	**108,447**
Net trading income	8	40,466	41,591
Other revenue	9	29,838	29,129
		70,304	70,720
Revenue		**895,124**	**934,298**
Net impairment losses on			
Financial assets	4(a)	(140,807)	(23,897)
Personnel expenses	10(a)	(410,095)	(388,942)
Other operating expenses	10(b)	(214,899)	(208,507)
Depreciation	21	(15,308)	(22,837)
Amortisation of intangible assets	22	(1,775)	(1,461)
Depreciation of right of use assets	32(a)	(35,546)	(38,105)
Profit before tax	11	76,694	250,549
Income tax credit/(expense)	12(a)	16,513	(66,891)
Profit for the year		**93,207**	**183,658**
Other comprehensive income, net of tax		-	-
Total comprehensive income		**93,207**	**183,658**
Basic earnings per share	**13**	**KShs 4.14**	**KShs 8.16**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs '000'	2019 KShs '000'
Interest income	5	1,536,992	1,625,107
Interest expense	6	(805,561)	(869,976)
Net interest income		**731,431**	**755,131**
Net fee and commission income	**7**	**93,389**	**108,447**
Net trading income	8	40,466	41,591
Other revenue	9	29,838	29,129
		70,304	70,720
Revenue		**895,124**	**934,298**
Net impairment losses on financial assets	4(a)	(140,807)	(23,897)
Personnel expenses	10(a)	(410,095)	(388,942)
Other operating expenses	10(c)	(208,404)	(208,507)
Depreciation	21	(15,308)	(22,837)
Amortisation of intangible assets	22	(1,775)	(1,461)
Depreciation of right of use assets	32(a)	(35,546)	(38,105)
Profit before tax	**11**	**83,189**	**250,549**
Income tax credit/(expense)	12(c)	16,513	(66,891)
Profit for the year		**99,702**	**183,658**
Other comprehensive income, net of tax		-	-
Total comprehensive income		**99,702**	**183,658**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	14	1,404,966	1,574,039
Placements with other banks	15	780,351	702,625
Investments in Government securities	16	5,642,703	3,951,029
Other investments	17	-	5,067
Loans and advances to customers (net)	18(a)	7,894,419	9,102,560
Other assets	19	318,503	298,939
Property and equipment	21	62,891	62,727
Right of use assets	32(a)	463,613	504,492
Intangible assets	22	3,352	3,824
Tax recoverable	12(b)	33,432	50,620
Deferred tax assets	23	180,544	130,528
Total assets		**16,784,774**	**16,386,450**
Liabilities			
Customers deposits	24	13,212,264	13,066,893
Lease liabilities	32(b)	280,716	296,635
Other liabilities	25	384,143	210,045
Provisions	26(b)	73,634	72,067
Total liabilities		**13,950,757**	**13,645,640**
Equity (Page 31)			
Share capital	27(a)	450,375	450,375
Statutory credit risk reserve	27(b)	184,833	217,053
Retained earnings		2,198,809	2,073,382
Total equity		**2,834,017**	**2,740,810**
Total liabilities and equity		**16,784,774**	**16,386,450**

The financial statements on pages 23 to 103 were approved and authorised for issue by the Board of Directors on 12 March 2021 and were signed on its behalf by:

Rajeshwar Sahi
Director

Hetul D. Chandaria
Director

Jophece Yogo
Group and Company secretary

The notes set out on pages 39 to 103 are an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 KShs '000	2019 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	14	1,404,966	1,574,039
Placements with other banks	15	780,351	702,625
Investments in Government securities	16	5,642,703	3,951,029
Other investments	17	-	5,067
Loans and advances to customers (net)	18(b)	7,894,419	9,096,065
Other assets	19	318,503	298,939
Investment in subsidiaries	20(a)	300,375	300,375
Property and equipment	21	62,891	62,727
Right of use assets	32(a)	463,613	504,492
Intangible assets	22	3,352	3,824
Tax recoverable	12(d)	33,432	50,620
Deferred tax asset	23	180,544	130,528
		17,085,149	**16,680,330**
Liabilities			
Customers deposits	24	13,212,264	13,066,893
Balances due to subsidiary companies	20(b)	364,792	364,792
Lease liabilities	32(b)	280,716	296,635
Other liabilities	25	384,143	210,045
Provisions	26(b)	73,634	72,067
Total liabilities		**14,315,549**	**14,010,432**
Equity (Page 33)			
Share capital	27(a)	450,375	450,375
Statutory credit risk reserve	27(b)	184,833	217,053
Retained earnings		2,134,392	2,002,470
Total equity		**2,769,600**	**2,669,898**
Total liabilities and equity		**17,085,149**	**16,680,330**

The financial statements on pages 23 to 103 were approved and authorised for issue by the Board of Directors on 12 March 2021 and were signed on its behalf by:

Rajeshwar Sahi
Director

Hetul D. Chandaria
Director

Jophece Yogo
Group and Company secretary

The notes set out on pages 39 to 103 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Total equity KShs'000
2020:				
Balance at 1 January 2020	450,375	2,073,382	217,053	2,740,810
Profit for the year	-	93,207	-	93,207
Other comprehensive income				
Transfer from statutory credit risk reserve	-	32,220	(32,220)	-
At 31 December 2020	**450,375**	**2,198,809**	**184,833**	**2,834,017**
2019:				
Balance at 1 January 2019	450,375	1,970,038	136,739	2,557,152
Profit for the year	-	183,658	-	183,658
Other comprehensive income				
Transfer to statutory credit risk reserve	-	(80,314)	80,314	-
At 31 December 2019	**450,375**	**2,073,382**	**217,053**	**2,740,810**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital KShs'000	Retained earnings KShs'000	Statutory credit risk reserve KShs'000	Total equity KShs'000
2020:				
Balance at 1 January 2020	450,375	2,002,470	217,053	2,669,898
Profit for the year	-	99,702	-	99,702
Other comprehensive income				
Transfer from statutory credit risk reserve	-	32,220	(32,220)	-
At 31 December 2020	**450,375**	**2,134,392**	**184,833**	**2,769,600**
2019:				
Balance at 1 January 2019	450,375	1,899,126	136,739	2,486,240
Profit for the year	-	183,658	-	183,658
Other comprehensive income				
Transfer to statutory credit risk reserve	-	(80,314)	80,314	-
At 31 December 2019	**450,375**	**2,002,470**	**217,053**	**2,669,898**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
Net cash flow from operating activities	29(a)	758,926	64,602
Cash flows from investing activities			
Purchase of intangible assets	22	(1,303)	(3,546)
Purchase of property and equipment	21	(15,472)	(11,920)
Proceeds from sale of property and equipment		1,410	1,695
Net cash used in investing activities		**(15,365)**	**(13,771)**
Cash flows from financing activities			
Payment of principal lease liabilities	32(d)	(10,586)	(11,886)
Net cash used in financing activities		**(10,586)**	**(11,886)**
Net increase in cash and cash equivalents	29(c)	732,975	38,945
Cash and cash equivalents at 1 January	29(c)	2,952,049	2,913,104
Cash and cash equivalents at 31 December	**29(c)**	**3,685,024**	**2,952,049**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
Net cash flow from operating activities	**29(b)**	**758,926**	**64,602**
Cash flows from investing activities			
Purchase of intangible assets	22	(1,303)	(3,546)
Purchase of property and equipment	21	(15,472)	(11,920)
Proceeds from sale of property and equipment		1,410	1,695
Net cash flows from investing activities		**(15,365)**	**(13,771)**
Cash flow from financing activities			
Payment of principal lease liabilities	32(d)	(10,586)	(11,886)
Net cash used in financing activities		**(10,586)**	**(11,886)**
Net decrease in cash and cash equivalents	29(c)	732,975	38,945
Cash and cash equivalents at 1 January	29(c)	2,952,049	2,913,104
Cash and cash equivalents at 31 December	**29(c)**	**3,685,024**	**2,952,049**

The notes set out on pages 39 to 103 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

Guardian Bank Limited ("the Bank" or "the company") is a company domiciled in Kenya. The consolidated and separate financial statements of the company as at end of the year 31 December 2020 comprise the Bank and its subsidiaries (together referred to as the "Group" or "consolidated"). The Group and Company are involved in investment, corporate and retail banking. The address of the Group and Company's registered office is as follows:

Guardian Centre
Biashara Street
PO Box 67437 - 00100 GPO
Nairobi

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated and separate financial statements of the company and its subsidiaries together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015.

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

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting.

(c) Use of judgments and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is set out below:

(i) Impairment of financial assets

Judgement is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPI) on the principal amount outstanding.

Judgement is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy 3(h).

The Group and Company recognises loss allowance at an amount equal to either 12-month expected credit losses (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.

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Group and Company provides for 12-month ECLs. These are classified as Stage 1 assets. 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 ECLs. These are classified as Stage 2 assets.

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.

(ii) Fair value of financial instruments

Where the fair values of the financial assets and finance liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(iii) Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group and Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

(iii) Taxation - continued

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group and Company recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group and Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group and Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

(iv) Useful lives and residual values of property, equipment and intangible assets

The company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property, equipment and intangibles assets have been determined based on previous experience and anticipated disposal values when the assets are disposed. The rates used are set out on Note 3(d) for property and equipment and Note 3(e) for intangible assets.

(v) Business model assessment and assumptions

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

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (refer to note 3 (h)). The Group and Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group and Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group and Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

As explained in note 2 (c)(i) above, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. Instead management, in assessing whether the credit risk of an asset has significantly increased the Group and Company takes into account qualitative and quantitative reasonable and supportable forward-looking information.
Refer to note 3 and note 4 for more details.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group and Company uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to note 3 and note 4 for more details on ECL measurement.

(d) Functional and presentation currency

The financial statements are presented in Kenya Shillings which is also the Group and Company's functional and presentation currency and the currency of the primary economic environment in which the entity operates. Except when otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (KShs'000).

3. SIGNIFICANT ACCOUNTING POLICIES

The Group and Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Basis of consolidation

The consolidated financial statements include the Company and subsidiaries in which the company holds 100% of the voting rights. A listing of the company's subsidiaries is set out in Note 20. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company balances and transactions are eliminated upon consolidation. Investments in subsidiaries are accounted for at cost at company level. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

(b) Revenue recognition

Income is derived substantially from banking business and related activities. Revenue comprises of net interest income and non-interest income. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Group and Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

(i) Interest income and interest expense

Interest income is recognised on an accrual basis using the effective interest rate method.

Effective interest rate

Income from loans and advances to customers, placements with other banks and Investments in government securities is recognised in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group and Company estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that were credit-impaired on initial recognition, purchased originated credit impaired (POCI) assets, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(ii) Fee and commission income

Fee and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Other fee and commission income including account servicing fees and placement fees are recognized as the related services are performed. Other fee and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

(iii) Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes and interest.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya Shillings at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Resulting exchange differences are recognised in profit or loss for the year. Non monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the transaction date.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives are as follows:

- Leasehold improvements	5 years
- Equipment, fixtures and fittings, motor vehicles	3 to 8 years
- Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(iv) Disposal of property and equipment

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 3 years.

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

(f) Leases

At inception of a contract, the Group and Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group and Company allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Group and Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group and Company's incremental borrowing rate. Generally, the Group and Company uses its incremental borrowing rate as the discount rate.

The Group and Company determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group and Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group and Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group and Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and Company presents right-of-use assets and lease liabilities as line items in the statement of financial position.

Short-term leases and leases of low-value assets

The Group and Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group and Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(g) Income tax

(i) Current tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Company and the reversal of temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(h) Financial instruments

(i) Classification

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

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL).

The previous categories of Held to Maturity, Loans and Receivables and Available for Sale under IAS 39 have been replaced.

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 and Company recognises cash and balances with Central Bank, placements with other banks, investments in government securities, loans and advances to customers and other assets at amortised cost.

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 (SPPI) on the principal amount outstanding.

The Group and Company has no financial assets classified at FVOCI.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

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

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 Company 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 and Company does not have financial assets classified at FVTPL.

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 of whether contractual cash flows are solely payments of principal and Interest (SSPI)

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, 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 applies the FVOCI 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 and Company considered the contractual terms of the instrument. This included 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 and Company considered:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group and Company'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.

Non-recourse loans

In some cases, loans made by the Group and Company that are secured by collateral of the borrower limit the Group and Company's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group and Company typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group and Company's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group and Company will benefit from any upside from the underlying assets.

The Group and Company also provides floating interest rate loans. The bank has determined that the contractual cash flows of these loans and advances are SPPI because the interest is not leveraged and though may vary will still represent consideration for time value of money, other basic lending.

De minimis

A contractual cash flow characteristic does 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 and Company 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 and Company 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 and Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group and Company'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 will be 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 Group and Company's financial assets are all held within a business model whose objective is to hold assets to collect contractual cash flows.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, although under IAS 39 fair value changes of liabilities designated under the fair value option were recognised in profit and loss, under IFRS 9, fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in credit risk of the liability is presented in OCI and;
- the remaining amount of change in fair value is presented in profit or loss.

The Group and Company classifies all financial liabilities as subsequently measured at amortised cost.

Customer deposits, balances due to banking institutions and other liabilities are classified at amortised cost.

Reclassification

The Group and Company 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 Group and Company's senior management as a result of external or internal changes.

Derecognition and contract modification

The Group and Company 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 and Company 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 and Company will recalculate 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 and Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Write-off

The Group and Company directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group and Company 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 and Company of similar transactions such as in the Group and Company's trading activity.

Impairment – loans and advances, off balance sheet 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 Group and Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group and Company's loans and advances to customers, cash and balances with Central Bank, investments in government securities, placements with other banking institutions and other assets; 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 and Company'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.

The Group and Company 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 (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Group recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where 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 applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below and in note 4(a):

- 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 ECLs

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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group 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 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.

(ii) Recognition and measurement

The Group and Company initially recognises loans and advances, deposits and debt securities issues on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through the income statement) are initially recognized on the trade date, which is the date the Group and Company becomes party to the contractual provisions of the instrument.

A financial asset of financial liability is initially measured at fair value plus, for items not at fair value through profit or loss, translation costs are directly attributable to the acquisition or issue.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortised cost using the effective rate method except where the Group and Company design liabilities at fair value through profit or loss.

(iii) De-recognition

A financial asset is derecognised when the Group and Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Bank to a third party.

(iv) Identification and measurement of impairment of financial assets

At each reporting date the Group and Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group and Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group and Company on terms that the Group and Company would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group and Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the

actual losses are likely to be greater or less than suggested by historical modelling.
Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(i) Impairment of non-financial assets

The carrying amounts of the Group and Company's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Contingent liabilities

Letters of credit, guarantees, bills for collection and swaps are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities are made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit or loss.

(k) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the company has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

The Group and Company operated a non-contributory gratuity scheme which was terminated in August 2018 and a new defined contribution scheme started thereafter. The gratuity policy provided that an employee who worked for more than 5 years, was eligible for the gratuity amount based on the lower of six months monthly salary or an equivalent of 15 days salary for every year worked; however, this was at management's discretion. A provision was made in the Group and Company's financial statements for the accrued liability in respect of the benefits promised under the arrangement and movements in the provision recognised in profit or loss.

The Group and Company's net obligation in respect of the scheme was calculated separately as the present value of the benefits in respect of service completed to the valuation date but based on projected earnings to the date of retirement or earlier exit for each employee. The total accrued (past service) liability (or the required balance sheet provision as at the valuation date) was obtained by summing the individual benefits over all employees eligible as at 31 August 2018. There was no separate pool of assets set aside to meet the accrued liabilities under the arrangement.

The required contribution rate for future years expressed as a percentage of basic salaries was determined as the cost of accrual of benefit in the year after the valuation date, but based on projected earnings to date of termination of the gratuity scheme. The retirement age, sex and salary distribution was expected to remain relatively stable provided that the age, sex and salary distribution of the employees remained broadly unchanged.

The calculation of defined benefit obligation as at 31 August 2018 was performed by a qualified actuary using the projected unit credit method.

(iii) Defined contribution scheme

The Group and Company operates defined contribution retirement benefit scheme for both unionised and non-unionised employees beginning 1 September 2018. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and employer.

The Group and Company and all employees also contribute to the National Social Security Fund, which is a statutory defined contribution scheme. The Group and Company's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

(m) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group and Company has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group and Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted prices in an active market, then the Group and Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(q) New standards, amendments and interpretations

(i) New standards and interpretations effective and adopted during the year

The Group and Company has adopted the following new standards and amendments during the year ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Group and Company being 1 January 2020. The standards or amendments did not have a material impact on the Group and Company's financial statement.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these financial statements.

The Group and Company does not plan to adopt these standards early. These standards or amendments are not expected to have a significant impact on the Group and Company's financial statements.

New standard or amendments	Effective for annual periods beginning on or after
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
Interest rate benchmark reform-phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2021
Onerous contracts: Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Annual improvements to IFRS standards 2018-2020	1 January 2022
Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	Available for optional adoption/ effective date deferred indefinitely

4. FINANCIAL RISK REVIEW AND MANAGEMENT

Introduction and overview

The Group and Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks; and
- operational risks

This note presents information about the Group and Company's exposure to each of the above risks, the Group and Company's objectives, policies and processes for measuring and managing risk, and the Group and Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group and Company's risk management framework. The Board has established the Group and Company Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group and Company risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group and Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group and Company Risk Management Committee is responsible for monitoring compliance with the Group and Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Group and Company Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

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

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Group and Company Credit Committee. A separate Group and Company Credit department, reporting to the Group and Company Credit Committee, is responsible for oversight of the Group's and Company's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit Department, Head of Group Credit, Group Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Bank's Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's and Company's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group and Company Risk Management Department.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group and Company Credit Department on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group and Company in the management of credit risk.

Each business unit is required to implement Group and Company credit policies and procedures, with credit approval authorities delegated from the Group and Company Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group and Company Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group and Company Credit processes are undertaken by Internal Audit.

Credit quality

The following tables sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For loan commitments the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities. Explanation of the terms 'Stage 1', 'Stage 2', 'Stage 3' and purchased originated credit impaired (POCI) assets is included in Note 3(h).

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Placements with other Banks						
Performing	781,010	-	-	-	781,010	703,286
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	781,010	**-**	**-**	**-**	**781,010**	**703,286**
Loss allowance	(659)	-	-	-	(659)	(661)
Carrying amount	**780,351**	**-**	**-**	**-**	**780,351**	**702,625**

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Investment in Government securities						
Performing	5,657,856	-	-	-	5,657,856	3,962,537
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	5,657,856	**-**	**-**	**-**	**5,657,856**	**3,962,537**
Loss allowance	(15,153)	-	-	-	(15,153)	(11,508)
Carrying amount	**5,642,703**	**-**	**-**	**-**	**5,642,703**	**3,951,029**

Group

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Corporate loans						
Normal	5,830,240	-	-	-	5,830,240	7,175,730
Watch	-	299,598	-	-	299,598	289,806
Non-performing	-	-	873,016	-	873,016	691,838
	5,830,240	**299,598**	**873,016**	**-**	**7,002,854**	**8,157,374**
Loss allowance	(28,280)	(21,816)	(457,106)	-	(507,202)	(462,077)
Carrying amount	**5,801,960**	**277,782**	**415,910**	**-**	**6,495,652**	**7,695,297**

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Business loans						
Normal	484,232	-	-	-	484,232	481,285
Watch	-	-	-	-	-	-
Non-performing	-	-	174,472	-	174,472	128,065
	484,232	-	174,472	-	658,704	609,350
Loss allowance	(694)	-	(99,961)	-	(100,655)	(99,933)
Carrying amount	**483,538**	**-**	**74,511**	**-**	**558,049**	**509,417**

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Personal loans						
Normal	730,389	-	-	-	730,389	838,242
Watch	-	23,076	-	-	23,076	40,757
Non-performing	-	-	133,068	-	133,068	124,308
	730,389	**23,076**	**133,068**	**-**	**886,533**	**1,003,307**
Loss allowance	(187)	(109)	(45,519)	-	(45,815)	(105,461)
Carrying amount	**730,202**	**22,967**	**87,549**	**-**	**840,718**	**897,846**

Company

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Corporate loans						
Normal	5,830,240	-	-	-	5,830,240	7,175,730
Watch	-	299,598	-	-	299,598	289,806
Non-performing	-	-	873,016	-	873,016	636,177
	5,830,240	**299,598**	**873,016**	**-**	**7,002,854**	**8,101,713**
Loss allowance	(28,280)	(21,816)	(457,106)	-	(507,202)	(406,416)
Carrying amount	**5,801,960**	**277,782**	**415,910**	**-**	**6,495,652**	**7,695,297**

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Business loans						
Normal	484,232	-	-	-	484,232	481,285
Watch	-	-	-	-	-	-
Non-performing	-	-	174,472	-	174,472	126,642
	484,232	**-**	**174,472**	**-**	**658,704**	**607,927**
Allowance	(694)	-	(99,961)	-	(100,655)	(98,511)
Carrying amount	**483,538**	**-**	**74,511**	**-**	**558,049**	**509,416**

			2020			2019
KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Personal loans						
Normal	730,389	-	-	-	730,389	838,242
Watch	-	23,076	-	-	23,076	40,757
Non-performing	-	-	133,068	-	133,068	36,364
	730,389	**23,076**	**133,068**	**-**	**886,533**	**915,363**
Loss allowance	(187)	(109)	(45,519)	-	(45,815)	(24,011)
Carrying amount	**730,202**	**22,967**	**87,549**	**-**	**840,718**	**891,352**

Group and Company

			2020			2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Off balance sheet commitments						
Performing	658,626	-	-	-	658,626	789,696
Under performing	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
	658,626	**-**	**-**	**-**	**658,626**	**789,696**
Loss allowance	(6)	-	-	-	(6)	(31)
Carrying amount	**658,620**	**-**	**-**	**-**	**658,620**	**789,665**

The following tables sets out the overdue status of loans and advances in stage 1, 2 and 3.

Group

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Corporate loans					
0< 30	5,830,240	-	-	5,830,240	7,175,730
Overdue >30<90	-	299,598	-	299,598	289,806
Overdue >90	-	-	873,016	873,016	691,838
	5,830,240	**299,598**	**873,016**	**7,002,854**	**8,157,374**

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Business loans					
0 < 30	484,232	-	-	484,232	481,285
Overdue >30<90	-	-	-	-	-
Overdue >90	-	-	174,472	174,472	128,065
	484,232	**-**	**174,472**	**658,704**	**609,350**

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Personal loans					
0 < 30	730,389	-	-	730,389	838,242
Overdue >30<90	-	23,076	-	23,076	40,757
Overdue >90	-	-	133,068	133,068	124,308
	730,389	**23,076**	**133,068**	**886,533**	**1,003,307**

Company

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Corporate loans					
0< 30	5,830,240	-	-	5,830,240	7,175,730
Overdue >30<90	-	299,598	-	299,598	289,806
Overdue >90	-	-	873,016	873,016	636,177
	5,830,240	**299,598**	**873,016**	**7,002,854**	**8,101,713**

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Business loans					
0 < 30	484,232	-	-	484,232	481,285
Overdue >30<90	-	-	-	-	-
Overdue >90	-	-	174,472	174,472	126,642
	484,232	**-**	**174,472**	**658,704**	**607,927**

			2020		2019
In '000 of KShs	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Personal loans					
0 < 30	730,389	-	-	730,389	838,242
Overdue >30<90	-	23,076	-	23,076	40,757
Overdue >90	-	-	133,068	133,068	36,364
	730,389	**23,076**	**133,068**	**886,533**	**915,363**

Write-off policy

The Group and Company writes off a loan/security balance (and any related allowances for impairment losses) when Group Credit section determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral

The Group and Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2020 or 2019.

An estimate of the fair values of collateral against loans and advances to customers is shown below:

	2020 KShs'000	%	2019 KShs'000
Stage 1	14,166,186	90	9,637,747
Stage 2	1,024,535	6	97,111
Stage 3	656,865	4	475,077
	15,847,586	**100**	**10,209,935**

The percentages above represent the portion of loans and advances that are covered by collateral.

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

The Group and Company 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 Group's and Company's historical experience, expert credit assessment and forward-looking information.

The Group and Company identifies a significant increase in credit risk where

- exposures have a regulatory risk rating of 'watch';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 days past due (DPD) rebuttable presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was Non performing and is now regularised (subject to the regulatory cooling off period);or
- by comparing, where information is available, an 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.

Determining whether credit risk has increased significantly

The Group and Company has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

The framework aligns with the Group's and Company's internal credit risk management process.

The Group and Company will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears.

Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group and Company may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- 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;
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group and Company will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine 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. Also see note 3(h).

Definition of default

The Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Group and Company 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 Group and Company. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;

- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Under IFRS 9, the Group and Company is required to incorporate forward-looking information in its measurement of ECLs.

The Group and Company applies linear regression to determine the forward-looking adjustment to incorporate in its ECL. The Group and Company formulates three economic scenarios: a base case, which is the median scenario assigned a probability of occurring based on the predictive strength of the relationship between the Group and Company's default rate and the macro economic variables (MEV's), and two less likely scenarios, one upside and one downside, each assigned a probability of occurring based on half the difference between the Base case and 100%.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Kenya, supranational organisations such as the World Bank and the International Monetary Fund, and selected private-sector and academic forecasters.

The Bank has identified key drivers of credit risk and credit losses for its overall portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These are reviewed by management periodically to ascertain relevance based on management's understanding of the current industry environment.

The key drivers for credit risk are GDP, growth in commercial bank loans, exports of goods and services and inflation

Modified financial assets

The contractual terms of loans and advances 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 loans and advances recognised as a new loans and advances 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.

The Group and Company renegotiates loans and advances with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Group and Company's restructuring policy, loans and advances 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 Bank Credit Committee regularly reviews reports on restructuring activities.

Generally, forbearance 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 (see above).

Following forbearance, 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.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of Default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD will be adjusted to reflect forward-looking information as described above.

PD

Loan listings and the borrower central bank risk classifications from 2016 to date were used as the primary input in the determination of the PD structures.

PD estimates for loans and advances are estimates at a certain date, calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will be assessed at portfolio level for portfolios of assets that have similar characteristics. The Bank has categorised its loans and advances into three portfolios, Corporate, Business and Personal loans.

The PD estimates for other financial instruments assessed for impairment is based on external credit rating information obtained from reputable external rating agencies such as Moody's, Standard and Poors, Fitch and Global credit rating.

The PD estimates applied are probability weighted incorporating a forward-looking adjustment which is determined based on a base scenario, upside and downside scenario. Please see the section on forward-looking information.

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group and Company will estimate LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties.

The LGD models will consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest rate (EIR) or a close proxy of the EIR.

Exposure at Default

EAD represents the expected exposure in the event of a default. The Group and Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. For loan commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group and Company will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group and Company considers a longer period.

The maximum contractual period extends to the date at which the Group and Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For guarantee facilities, overdrafts and other revolving facilities that include both a drawn and an undrawn commitment component, the Group and Company will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Product type; and
- Industry.

The groupings will be subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

Amount arising from ECL

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by Segment with comparative figures for year 2019.

Group and Company Loss allowance	2020					2019				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Placements with other banks										
Balance at 1 January	661	-	-	-	661	2,470	-	-	-	2,470
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	(1)	-	-	-	(1)	(42)	-	-	-	(42)
Net financial assets originated or purchased	-	-	-	-	-	30	-	-	-	30
Financial assets that have been derecognised	(1)	-	-	-	(1)	(1,797)	-	-	-	(1,797)
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**659**	**-**	**-**	**-**	**659**	**661**	**-**	**-**	**-**	**661**

Group and Company Loss allowance			2020					2019		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Investment in Government securities										
Balance at 1 January	11,508	-	-	-	11,508	10,154	-	-	-	10,154
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2 -	-	-	-	-	-	-	-	-	-	
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	123	-	-	-	123	(2)	-	-	-	(2)
Net financial assets originated or purchased	3,645	-	-	-	3,645	8,449	-	-	-	8,449
Financial assets that have been derecognised	(123)	-	-	-	(123)	(7,093)	-	-	-	(7,093)
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**15,153**	**-**	**-**	**-**	**15,153**	**11,508**	**-**	**-**	**-**	**11,508**

Group Loss allowance			2020					2019		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Corporate										
Balance at 1 January	35,466	5,995	420,616	-	462,077	19,549	1,190	420,897	-	441,636
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	(3,555)	3,756	(201)	-	-	(726)	726	-	-	-
Transfer to Stage 3	-	(1,374)	1,374	-	-	-	-	-	-	-
Net re-measurement of loss allowance	11,681	13,438	90,978	-	116,097	8,669	4,080	26,684	-	39,433
Net financial assets originated or purchased	3,184	-	-	-	3,184	10,870	-	-	-	10,870
Financial assets that have been derecognised	(18,495)	-	-	-	(18,495)	(2,896)	-	-	-	(2,896)
Write offs	-	-	(55,661)	-	(55,661)	-	(1)	(26,965)	-	(26,966)
Recoveries -	-	-	-	-	-	-	-	-	-	
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**28,281**	**21,815**	**457,106**	**-**	**507,202**	**35,466**	**5,995**	**420,616**	**-**	**462,077**

Group Loss allowance	**2020**					**2019**				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Business										
Balance at 1 January	4,012	-	95,921	-	99,933	512	-	95,028	-	95,540
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	(14)	-	14	-	-	(119)	-	119	-	-
Net re-measurement of loss allowance	(2,904)	-	5,451	-	2,547	5,052	-	805	-	5,857
Net financial assets originated or purchased	53	-	-	-	53	302	-	-	-	302
Financial assets that have been derecognised	(454)	-	-	-	(454)	(1,735)	-	-	-	(1,735)
Write offs	-	-	(1,424)	-	(1,424)	-	-	(31)	-	(31)
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**693**	**-**	**99,962**	**-**	**100,655**	**4,012**	**-**	**95,921**	**-**	**99,933**

Group Loss allowance	**2020**					**2019**				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Personal										
Balance at 1 January	1,178	72	104,211	-	105,461	433	4	101,851	-	102,288
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	(72)	72	-	-	-
Transfer to Stage 3	(9)	-	9	-	-	-	-	-	-	-
Net re-measurement of loss allowance	(1,016)	37	18,486	-	17,507	2,873	(4)	3,284	-	6,153
Net financial assets originated or purchased	66	-	5,205	-	5,271	246	-	-	-	246
Financial assets that have been derecognised	(32)	-	-	-	(32)	(2,302)	-	-	-	(2,302)
Write offs	-	-	(82,392)	-	(82,392)	-	-	(924)	-	(924)
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**187**	**109**	**45,519**	**-**	**45,815**	**1,178**	**72**	**104,211**	**-**	**105,461**

Group and Company Loss allowance	2020					2019				
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans commitments -off balance sheet commitment										
Balance at 1 January	31	-	-	-	31	2	-	-	-	2
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	(25)	-	-	-	(25)	29	-	-	-	29
Net financial assets originated or purchased	-	-	-	-	-	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**6**	**-**	**-**	**-**	**6**	**31**	**-**	**-**	**-**	**31**

The expected credit loss on off balance sheet items was recorded in other liabilities – refer to Note 25.

The loss allowance in these tables includes ECL on off balance sheet financing arrangement commitments for overdrafts, because the Group cannot separately identify the ECL on the off balance sheet commitment component from those on the financial instrument component.

The ECL on placements with other banks, investment in government securities, loans and advances to customers and loan commitments are presented in placements with other banks, investment in government securities, loans and advances to customers and other liabilities respectively in the statement of financial position.

The following table provides a reconciliation between:

- Amounts shown in the above tables reconciling opening and closing balances of loss allowance for financing arrangements.
- The 'Net impairment provision on financing assets' line item in the statement of profit or loss and other comprehensive income.

Year ended 31 December 2020 Group and Company In KShs'000	Placements with other banks	Investment in government securities	Loans and advances to customers	Off balance sheet commitments	Total
Net re-measurement of loss allowance	(1)	123	136,151	(25)	136,248
Net financial assets originated or purchased	-	3,645	8,508	-	12,153
Financial assets that have been derecognised	(1)	(123)	(18,981)	-	(19,105)
Write backs/ (recoveries)	-	-	11,511	-	11,511
	(2)	**3,645**	**137,189**	**(25)**	**140,807**

Year ended 31 December 2019 Group and Company In KShs'000	Placements with other banks	Investment in government securities	Loans and advances to customers	Off balance sheet commitments	Total
Net re-measurement of loss allowance	(42)	(2)	51,444	29	51,429
Net financial assets originated or purchased	30	8,449	11,417	-	19,896
Financial assets that have been derecognised	(1,797)	(7,093)	(6,932)	-	(15,822)
Write backs/ (recoveries)	-	-	(31,606)	-	(31,606)
Net write off	-	-	-	-	-
	(1,809)	**1,354**	**24,323**	**29**	**23,897**

Covid-19 repayment deferral packages offered to customers

Since April 2020, the Group and Company has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements for temporary deferral of principal and interest repayments. The loan repayment deferral package is considered to be a loan modification. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification).

Below shows the outstanding balance as at 31 December 2020 of all loans that have been modified (non-substantial modifications):

Relief offered	No of accounts	Amount of instalments deferred	Total outstanding as at 31.12.2020
		KShs'000	KShs'000
Deferment of repayment	23	18,864	561,701

Offsetting financial assets and financial liabilities

There are no financial assets and financial liability amounts in the statement of financial position that have been offset in these financial statements.

Concentrations of credit risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances, loan commitments and Investment in Government securities at the reporting date is shown below:

Concentration by sector

Loans and advances to customers	Group 2020	Company 2020	Group 2019	Company 2019
	KShs'000	KShs'000	KShs'000	KShs'000
Agriculture, hunting, fishing and forestry	85,071	85,071	50,714	50,714
Manufacturing	810,554	810,554	954,325	954,325
Trade	3,537,312	3,537,312	4,322,796	4,267,135
Transport & Communication	612,840	612,840	510,816	510,816
Real estate	1,543,752	1,543,752	1,646,655	1,646,655
Personal loans	863,456	863,456	962,551	874,605
Others	1,095,106	1,095,106	1,322,174	1,320,753
	8,548,091	**8,548,091**	**9,770,031**	**9,625,003**

(b) Liquidity risk

Settlement risk

The Group's and Company's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group and Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group and Company Risk.

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

Management of liquidity risk

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

The Group's and Company's central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group and Company as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.
All liquidity policies and procedures are subject to review and approval by Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The key measure used by the Group and Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported Group and Company ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

Group and Company	2020	2019
Average for the period	50.05%	46.96%
Maximum for the period	59.35%	48.63%
Minimum for the period	44.79%	44.14%

Residual contractual maturities of assets and liabilities

Customer deposits represent current, savings, call and fixed deposit balances, which past experience have shown to be stable.

Group 31 December 2020	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,404,966	-	-	-	1,404,966
Investment in Government Securities	2,057,349	1,846,577	350,349	1,388,428	5,642,703
Placements with other banks	780,351	-	-	-	780,351
Loans and advances to customers (net)	72,528	3,892,600	2,288,168	1,641,123	7,894,419
Other assets	318,503	-	-	-	318,503
Total financial assets	**4,633,697**	**5,739,177**	**2,638,517**	**3,029,551**	**16,040,942**
Liabilities					
Customers deposits	10,105,035	3,098,274	8,955	-	13,212,264
Lease liabilities	4,464	11,022	96,123	169,107	280,716
Other liabilities	-	384,143	-	-	384,143
Total financial liabilities	**10,109,499**	**3,493,439**	**105,078**	**169,107**	**13,877,123**
	(5,475,802)	**2,245,738**	**2,533,439**	**2,860,444**	**2,163,819**

Residual contractual maturities of assets and liabilities

Customer deposits represent current, savings, call and fixed deposit balances, which past experience have shown to be stable.

Group 31 December 2019	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,574,039	-	-	-	1,574,039
Investment in Government Securities	1,356,646	1,500,016	174,646	919,721	3,951,029
Placements with other banks	702,625	-	-	-	702,625
Loans and advances to customers (net)	75,600	4,728,460	2,492,417	1,806,083	9,102,560
Other assets	298,939	-	-	-	298,939
Total financial assets	**4,007,849**	**6,228,476**	**2,667,063**	**2,725,804**	**15,629,192**
Liabilities					
Customers deposits	13,034,303	32,590	-	-	13,066,893
Lease liabilities	2,945	8,836	86,893	197,961	296,635
Other liabilities	-	210,045	-	-	210,045
Total financial liabilities	**13,037,248**	**251,471**	**86,893**	**197,961**	**13,573,573**
	(9,029,399)	**5,977,005**	**2,580,170**	**2,575,843**	**2,055,619**

Company 31 December 2020	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,404,966	-	-	-	1,404,966
Investment in Government Securities	2,057,349	1,846,577	350,349	1,388,428	5,642,703
Placements with other banks	780,351	-	-	-	780,351
Loans and advances to customers (net)	72,528	3,892,600	2,288,168	1,641,123	7,894,419
Other assets	318,503	-	-	-	318,503
Total financial assets	**4,633,697**	**5,739,177**	**2,638,517**	**3,029,551**	**16,040,942**
Liabilities					
Customers deposits	10,105,035	3,098,274	8,955	-	13,212,264
Lease liabilities	4,464	11,022	96,123	169,107	280,716
Due to subsidiary companies	-	-	-	364,792	364,792
Other liabilities	-	384,143	-	-	384,143
Total financial liabilities	**10,109,499**	**3,493,439**	**105,078**	**533,899**	**14,241,915**
	(5,475,802)	**2,245,738**	**2,533,439**	**2,495,652**	**1,799,027**

Company 31 December 2019	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	1,574,039	-	-	-	1,574,039
Investment in Government Securities	1,356,646	1,500,016	174,646	919,721	3,951,029
Placements with other banks	702,625	-	-	-	702,625
Loans and advances to customers (net)	71,849	4,493,902	2,751,928	1,778,386	9,096,065
Other assets	298,939	-	-	-	298,939
Total financial assets	**4,004,098**	**5,993,918**	**2,926,574**	**2,698,107**	**15,622,697**
Liabilities					
Customers' deposits	13,034,303	32,590	-	-	13,066,893
Lease liabilities	2,945	8,836	86,893	197,961	296,635
Due to subsidiary companies	-	-	-	364,792	364,792
Other liabilities	-	210,045	-	-	210,045
Total financial liabilities	**13,037,248**	**251,471**	**86,893**	**562,753**	**13,938,365**
	(9,033,150)	**5,742,447**	**2,839,681**	**2,135,354**	**1,684,332**

The above tables show the undiscounted cash flows on the Group's and Company's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's and Company's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group and the Company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the corporate banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group and Company's net investment in its foreign operations, all foreign exchange risk within the Group and Company is transferred and sold down by Central

Treasury to the corporate Banking unit. Accordingly, the foreign exchange position is treated as part of the Group and Company's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

Interest rate risk

This table shows the extent to which the group's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

Group 31 December 2020	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,404,966	1,404,966
Investment in Government Securities	10.17%	2,057,349	1,846,577	350,349	1,388,428	-	5,642,703
Placements with other banks	4.05%	780,351	-	-	-	-	780,351
Loans and advances to customers (net)	11.28%	72,528	3,892,600	2,288,168	1,641,123	-	7,894,419
Other assets	-	-	-	-	-	318,503	318,503
Total financial assets		**2,910,229**	**5,739,177**	**2,638,517**	**3,029,551**	**1,723,469**	**16,040,942**
Liabilities							
Customers deposits	5.81%	10,105,035	3,098,274	8,955	-	-	13,212,264
Lease liabilities	12.50%	4,464	11,022	96,123	169,107	-	280,716
Other liabilities	-	-	-	-	-	384,143	384,143
Total financial liabilities		**10,109,499**	**3,109,296**	**105,078**	**169,107**	**384,143**	**13,877,123**
Net exposure		**(7,199,270)**	**2,629,882**	**2,533,439**	**2,860,444**	**1,339,326**	**2,163,819**

Group 31 December 2019	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,574,039	1,574,039
Investment in Government Securities	10.38%	1,356,646	1,500,016	174,646	919,721	-	3,951,029
Placements with other banks	4.97%	702,625	-	-	-	-	702,625
Loans and advances to customers (net)	11.98%	75,600	4,728,460	2,492,417	1,806,083	-	9,102,560
Other assets	-	-	-	-	-	298,939	298,939
Total financial assets		**2,134,871**	**6,228,476**	**2,667,063**	**2,725,804**	**1,872,978**	**15,629,192**
Liabilities							
Customers deposits	6.22%	13,034,303	32,590	-	-	-	13,066,893
Lease liabilities	12.50%	2,945	8,836	86,893	197,961	-	296,635
Other liabilities	-	-	-	-	-	210,045	210,045
Total financial liabilities		**13,037,248**	**41,426**	**86,893**	**197,961**	**210,045**	**13,573,573**
Net exposure		**(10,902,377)**	**6,187,050**	**2,580,170**	**2,527,843**	**1,662,933**	**2,055,619**

This table shows the extent to which the Company's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

Company 31 December 2020	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,404,966	1,404,966
Investment in Government Securities	10.17%	2,057,349	1,846,577	350,349	1,388,428	-	5,642,703
Placements with other banks	4.05%	780,351	-	-	-	-	780,351
Loans and advances to customers (net)	11.28%	72,528	3,892,600	2,288,168	1,641,123	-	7,894,419
Other assets	-	-	-	-	-	318,503	318,503
Total financial assets		**2,910,229**	**5,739,177**	**2,638,517**	**3,029,551**	**1,723,469**	**16,040,942**
Liability							
Customers deposits	5.81%	10,105,035	3,098,274	8,955	-	-	13,212,264
Lease liabilities	12.50%	4,464	11,022	96,123	169,107	-	280,716
Due to subsidiary companies	-	-	-	-	-	364,792	364,792
Other liabilities	-	-	-	-	-	384,143	384,143
Total financial liabilities		**10,109,499**	**3,109,296**	**105,078**	**169,107**	**748,935**	**14,241,915**
Net exposure		**(7,199,270)**	**2,629,882**	**2,533,439**	**2,860,444**	**974,534**	**1,799,027**

Company 31 December 2019	Effective interest rate	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non-interest bearing	Total
	%	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,574,039	1,574,039
Investment in Government Securities	10.38%	1,356,646	1,500,016	174,646	919,721	-	3,951,029
Placements with other banks	4,97%	702,625	-	-	-	-	702,625
Loans and advances to customers (net)	11.98%	71,849	4,493,902	2,751,928	1,778,386	-	9,096,065
Other assets	-	-	-	-	-	298,939	298,939
Total financial assets		**2,131,120**	**5,993,918**	**2,926,574**	**2,698,107**	**1,872,978**	**15,622,697**
Liability							
Customers deposits	6.22%	13,034,303	32,590	-	-	-	13,066,893
Lease liabilities	12.50%	2,945	8,836	86,893	197,961	-	296,635
Other liabilities	-	-	-	-	-	210,045	210,045
Total financial liabilities		**13,037,248**	**41,426**	**86,893**	**197,961**	**210,045**	**13,573,573**
Net exposure		**(10,906,128)**	**5,952,492**	**2,839,681**	**2,500,146**	**1,662,933**	**2,049,124**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's and Company's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's and Company's non-trading activities.

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Central Treasury and equity price risk is subject to regular monitoring by Group Risk, but is not currently significant in relation to the overall results and financial position of the Group and Company.
The result of structural foreign exchange positions on the Group's and Company's net investments in foreign subsidiaries and branches, together with any related net investment hedges, is recognised in equity. The Group's policy is only to hedge such exposures when not to do so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered.

Currency risk

The group and company are exposed to currency risk through transactions in foreign currencies. The group's and Company's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below summarizes the foreign currency exposure as at 31 December 2020 and 31 December 2019:

Group and Company	2020 KShs'000	2019 KShs'000
Assets in foreign currencies	1,331,317	1,208,661
Liabilities in foreign currencies	(1,324,304)	(1,189,054)
Net foreign currency exposure	**7,013**	**19,607**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's and Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Group and Company

Increase/decrease in exchange rate		Effect on profit before tax	
		2020	**2019**
		KShs'000	**KShs'000**
USD	10%	554	1,526
GBP	10%	59	37
EURO	10%	5	301
OTHERS	10%	83	97

The table below analyses the currencies to which the Group and Company is exposed at 31 December 2020:

Group and Company

At 31 December 2020 KShs'000	USD	GBP	EURO	OTHER	TOTAL
Assets					
Cash and balances with Central Bank of Kenya	78,778	36,989	4,195	-	119,962
Deposits and balances due from banking institutions	643,553	32,576	5,754	863	682,746
Loans and advances to customers (net)	400,734	-	127,874	-	528,608
Total foreign currency assets	**1,123,065**	**69,565**	**137,823**	**863**	**1,331,316**
Liabilities					
Other liabilities	1,761	90	120,506	21	122,378
Deposits and balances due to banking institutions	1,115,765	68,886	17,263	12	1,201,926
Total foreign currency liabilities	**1,117,526**	**68,976**	**137,769**	**33**	**1,324,304**
Foreign currency exposure as at 31 December 2020	**5,539**	**589**	**54**	**830**	**7,012**
Off balance sheet items	**338,857**	**28,930**	**120,506**	**-**	**488,293**

At 31 December 2020 KShs'000	USD	GBP	EURO	OTHER	TOTAL
Assets					
Cash and balances with Central Bank of Kenya	65,873	23,270	5,130	-	94,273
Deposits and balances due from banking institutions	418,208	161,005	26,690	1,026	606,929
Loans and advances to customers (net)	425,071	-	82,388	-	507,459
Total foreign currency assets	**909,152**	**184,275**	**114,208**	**1,026**	**1,208,661**
Liabilities					
Other liabilities	12,584	81	96,363	30	109,058
Deposits and balances due to banking institutions	881,313	183,826	14,830	27	1,079,996
Total foreign currency liabilities	**893,897**	**183,907**	**111,193**	**57**	**1,189,054**
Foreign currency exposure at 31 December 2019	**15,255**	**368**	**3,015**	**969**	**19,607**
Off balance sheet items	**540,287**	**8,097**	**108,054**	**-**	**656,438**

(d) Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group and Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group and Company.

(e) Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Group and Company as a whole. The parent company and individual banking operations are directly supervised by the regulator.

In implementing current capital requirements, the Central Bank of Kenya requires the Group and Company to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group and Company calculates requirements for market risk in its trading portfolios based upon the Group's and Company's value at risk (VaR) models and uses its internal grading as the basis for risk weightings for credit risk.

The Group and Company's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's and Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The impact of the level of capital on shareholders' return is also recognised and the Group and Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's and Company's management of capital during the period.

The Group's and Company's regulatory capital position at 31 December was as follows:

	Group		Company	
Core capital (Tier 1)	**2020 KShs'000**	**2019 KShs'000**	**2020 KShs'000**	**2019 KShs'000**
Paid up share capital	450,375	450,375	450,375	450,375
Retained earnings	2,105,602	1,889,724	2,122,872	1,818,812
Net after tax profits	93,207	183,658	99,702	183,658
Core capital	2,649,184	2,523,757	2,672,949	2,452,845
Supplementary capital (Tier 2)	184,833	217,053	184,833	217,053
Total capital	**2,834,017**	**2,740,810**	**2,857,782**	**2,669,898**
On balance sheet risk weighted assets	11,391,904	11,584,343	11,391,904	11,577,848
Off balance sheet risk weighted assets	638,101	761,319	638,101	761,319
Total risk weighted assets	**12,030,005**	**12,345,662**	**12,030,005**	**12,339,167**
Capital adequacy ratios				
Percentage of Core Capital to Risk Weighted Asset ratio	22.02%	20.44%	21.22%	19.88%
Minimum requirement	10.50%	10.50%	10.50%	10.50%
Percentage of Total Capital to Risk Weighted Asset ratio	23.56%	22.20%	23.76%	21.64%
Minimum requirement	14.50%	14.50%	14.50%	14.50%
Percentage of Core Capital to Deposits ratio	20.05%	19.31%	20.23%	18.77%
Minimum requirement	8.00%	8.00%	8.00%	8.00%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk Management Committee and is subject to review by the Credit Committee or Assets and Liability Management Committee as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group and Company to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's and Company's longer term strategic objectives. The Group's and Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

(f) Financial assets and liabilities and their fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

Group	Fair value through profit or loss KShs'000	Amortised cost KShs'000	amortised cost KShs'000	Other carrying amount KShs'000	Total Fair values KShs'000
As at 31 December 2020					
Assets					
Cash and cash equivalents	-	-	1,404,966	1,404,966	1,404,966
Placements with other banks	-	-	780,351	780,351	780,351
Investments in Government securities	5,642,703	-	-	5,642,703	5,642,703
Loans and advances to customers (net)	-	7,894,419	-	7,894,419	7,894,419
Other assets	-	318,503	-	318,503	318,503
Total assets	**5,642,703**	**8,212,922**	**2,185,317**	**16,040,942**	**16,040,942**
Liabilities and shareholders' funds					
Customers deposits	-	-	13,212,264	13,212,264	13,212,264
Total liabilities	**-**	**-**	**13,212,264**	**13,212,264**	**13,212,264**
As at 31 December 2019					
Assets					
Cash and cash equivalents	-	-	1,574,039	1,574,039	1,574,039
Placements with other banks	-	-	702,625	702,625	702,625
Investments in Government securities	3,951,029	-	-	3,951,029	3,951,029
Loans and advances to customers (net)	-	9,102,560	-	9,102,560	9,102,560
Other assets – items in transit	-	298,939	-	298,939	298,939
Total assets	**3,951,029**	**9,401,499**	**2,276,664**	**15,629,192**	**15,629,192**
Liabilities and shareholders' funds					
Customers deposits	-	-	13,066,893	13,066,893	13,066,893
Total liabilities	**-**	**-**	**13,066,893**	**13,066,893**	**13,066,893**

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

Company	Fair value through profit or loss KShs'000	Amortised cost KShs'000	amortised cost KShs'000	Other carrying amount KShs'000	Total Fair values KShs'000
As at 31 December 2020					
Assets					
Cash and cash equivalents	-	-	1,404,966	1,404,966	1,404,966
Placements with other banks	-	-	780,351	780,351	780,351
Investments in Government securities	5,642,703	-	-	5,642,703	5,642,703
Loans and advances to customers (net)	-	7,894,419	-	7,894,419	7,894,419
Other assets – items in transit	-	318,503	-	318,503	318,503
Total assets	**5,642,703**	**8,212,922**	**2,185,317**	**16,040,942**	**16,040,942**
Liabilities and shareholders' funds					
Customers deposits	-	-	13,212,264	13,212,264	13,212,264
Total liabilities	**-**	**-**	**13,212,264**	**13,212,264**	**13,212,264**
As at 31 December 2019					
Assets					
Cash and cash equivalents	-	-	1,574,039	1,574,039	1,574,039
Placements with other banks	-	-	702,625	702,625	702,625
Investments in Government securities	3,951,029	-	-	3,951,029	3,951,029
Loans and advances to customers (net)	-	9,096,065	-	9,096,065	9,096,065
Other assets – items in transit	-	298,939	-	298,939	298,939
Total assets	**3,951,029**	**9,395,004**	**2,276,664**	**15,622,697**	**15,622,697**
Liabilities and shareholders' funds					
Customers deposits	-	-	13,066,893	13,066,893	13,066,893
Total liabilities	**-**	**-**	**13,066,893**	**13,066,893**	**13,066,893**

The fair value of investment in government securities is based on the indicative price of the specific issues as at the reporting date. For Treasury bills, placements with other banks, cash and cash equivalents and deposits the amortised cost is deemed a reasonable approximation of fair value because of their short term nature.

Loans and advances to customers are net of provisions for impairment. A substantial proportion of loans and advances is subject to price adjustments within 12 months as well as adjusting as a result of monetary policy pronouncements and hence the fair value approximates their carrying amounts.

5. INTEREST INCOME - Group and Company	**2020 KShs'000**	**2019 KShs'000**
Loans and advances to customers	1,141,671	1,200,203
Interest on government securities	379,453	403,488
Placements with other banks and banking institutions	15,868	21,416
Total interest income	**1,536,992**	**1,625,107**

6. INTEREST EXPENSE - Group and Company		
Customer deposits	762,111	823,484
Deposits from other banks and banking institutions	-	169
Interest on lease liabilities	34,492	37,842
Other interest expenses	8,958	8,481
Total interest expense	**805,561**	**869,976**

7. FEE AND COMMISSION INCOME - Group and Company		
Fee and commission on loans and advances	80,755	93,173
Other fee and commissions	12,634	15,274
	93,389	**108,447**

8. NET TRADING INCOME - Group and Company		
Foreign exchange	23,041	25,680
Other	17,425	15,911
	40,466	**41,591**

9. OTHER REVENUE - Group and Company		
Service income	9,342	10,996
Other income	19,086	16,438
Profit on sale of property and equipment	1,410	1,695
	29,838	**29,129**

10. OPERATING EXPENSES

(a) Personnel expenses - Group and Company	2020 KShs'000	2019 KShs'000
Salaries	385,626	361,988
Other staff costs	24,469	26,954
	410,095	**388,942**

The average number of employees of the Group and Company during the year was 119 (2019 – 117). 45 employees were management staff (2019 – 44) and 74 employees were non-management staff (2019 - 73).

(b) Other operating expenses - Group	2020 KShs'000	2019 KShs'000
Donations	4,015	181
Insurance expenses	39,856	38,695
Legal expenses	30,102	13,538
Occupancy expenses	37,364	34,096
Subscriptions	6,614	14,548
Stationary and maintenance expenses	30,859	34,952
Business promotion and advertisement	4,351	11,821
Other operating expenses	61,738	60,676
	214,899	**208,507**

(c) Other operating expenses - Company		
Donations	4,015	181
Insurance expenses	39,856	38,695
Legal expenses	30,102	13,538
Occupancy expenses	37,364	34,096
Other operating expenses	97,067	121,997
	208,404	**208,507**

11. PROFIT BEFORE TAX - Group and Company

Profit before income tax is arrived at after charging/(crediting):	2020 KShs'000	2019 KShs'000
Depreciation expense (Note 21)	15,308	22,837
Depreciation of right-of-use assets (Note 32(a))	35,546	38,105
Amortisation of intangible assets (Note 22)	1,775	1,461
Directors fees - As directors	5,040	5,590
- As employees	60,041	59,573
Auditor's remuneration	5,050	5,050
Profit on sale of property and equipment	(1,410)	(1,695)

12. INCOME TAX

	2020 KShs'000	2019 KShs'000
(a) Income tax (credit)/ expense – Group		
Current tax expense:		
Current year	33,503	60,819
Deferred tax credit (Note 23):		
- Current year (credit)	(48,057)	6,072
- Prior year under provision	(1,959)	-
Total tax (credit)/expense	**(16,513)**	**66,891**

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

	2020 KShs'000	2019 KShs'000
Profit before income tax	**76,694**	**250,549**
Tax at applicable rate of 25% (2019 – 30%)	19,173	75,165
Net effect of non-deductible costs and non-taxable income	(25,718)	(8,274)
Effect of changes in tax rates	(8,009)	-
Prior year under provision of deferred tax (Note 23)	(1,959)	-
Total tax credit	**(16,513)**	**66,891**

(b) Tax recoverable - Group

At 1 January	(50,620)	19,842
Charge for the year	33,503	60,819
Paid during the year	(16,315)	(131,281)
At 31 December	**(33,432)**	**(50,620)**

(c) Income tax expense - Company

Current tax expense:		
Current year	33,503	60,819
Deferred tax credit (Note 23):		
- Current year (credit)	(48,057)	6,072
- Prior year under provision	(1,959)	-
Total tax (credit)/expense	**(16,513)**	**66,891**

The tax on the Company's profit differs from the theoretical amount using the basic tax rate as follows:

	2020 KShs'000	2019 KShs'000
Profit before income tax	**83,189**	**250,549**
Tax at applicable rate of 25% (2019 – 30%)	20,797	75,165
Net effect of non-deductible costs and non-taxable income	(27,342)	(8,274)
Effect of changes in tax rates	(8,009)	-
Prior year under provision of deferred tax (Note 23)	(1,959)	-
Total tax (credit)/expense	**(16,513)**	**66,891**

(d) Tax payable/(recoverable) – Company	2020 KShs'000	2019 KShs'000
At 1 January	(50,620)	19,842
Charge for the year	33,503	60,819
Paid during the year	(16,315)	(131,281)
At 31 December	**(33,432)**	**(50,620)**

13. BASIC EARNINGS PER SHARE - Group

The calculation of basic earnings per share is based on:

	2020	2019
Net profit for the year attributable to shareholders (KShs '000)	**93,207**	**183,658**
Number of ordinary shares in issue during the year	**22,518,750**	**22,518,750**
Earnings per share (KShs)	**4.14**	**8.16**

At 31 December 2020 there are no ordinary shares with dilutive potential (2019 – Nil). All shares rank equally with regard to the Group and Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group and Company.

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA - Group and Company

	2020 KShs'000	2019 KShs'000
Cash on hand	167,288	161,288
Balances with Central Bank of Kenya:		
Cash reserve ratio	557,642	681,261
Other	680,036	731,490
	1,404,966	**1,574,039**

The cash ratio reserve is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2020, the cash reserve ratio requirement was 4.25% of eligible deposits (2019 – 5.25%). The funds are available for use by the Group and Company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided the overall average in the month is at least 4.25% (2019 – 5.25%).

15. PLACEMENTS WITH OTHER BANKS

	2020 KShs'000	2019 KShs'000
Group and Company		
Due within 12 months of reporting date	781,010	703,286
Less: Expected credit loss allowance	(659)	(661)
Net due within 12 months of reporting date	**780,351**	**702,625**

16. INVESTMENTS IN GOVERNMENT SECURITIES - Group and Company

Amortized cost	2020 KShs'000	2019 KShs'000
Term deposits		
Maturing within 90 days of reporting date	700,259	-
Treasury bills		
Maturing within 90 days of reporting date	1,357,090	1,356,646
Maturing after 90 days of reporting date	1,794,663	1,500,016
	3,151,753	2,856,662
Treasury bonds		
Maturing between 0 months and 3 months	-	-
Maturing between 3 months and 1 year	51,915	-
Maturing between 1 year and 5 years	350,349	174,646
Maturing after 5 years	1,388,427	919,721
	1,790,691	**1,094,367**
	5,642,703	**3,951,029**

The above investments in government securities have been presented net of expected credit loss allowance of KShs 15,153,000 (2019 – KShs 11,508,000) – See note 4(a).

The weighted average effective interest rate on Government securities at 31 December 2020 was 10.17% (2019 – 10.38%).

17. OTHER INVESTMENTS

Private placements

Group and Company	2020 KShs'000	2019 KShs'000
Private placements	-	5,067

18. LOANS AND ADVANCES TO CUSTOMERS

(a) group	2020 KShs'000	2019 KShs'000
Overdrafts	3,244,203	4,107,195
Loans	4,359,317	4,810,872
Bills discounted	232,584	148,416
Hire purchase	375,947	364,554
Premium financing	284,088	264,501
Bills purchased	51,952	74,493
	8,548,091	9,770,031
Less: Expected credit loss allowance (Note 18(c))	(653,672)	(667,471)
	7,894,419	**9,102,560**

(b) Company	2020 KShs'000	2019 KShs'000
Overdrafts	3,244,203	4,017,829
Loans	4,359,317	4,755,211
Bills discounted	232,584	148,416
Hire purchase	375,947	364,553
Premium financing	284,088	264,501
Bills purchased	51,952	74,493
	8,548,091	9,625,003
Less: Expected credit loss allowance (Note 18(c))	(653,672)	(528,938)
	7,894,419	**9,096,065**

(c) Amounts arising from ECL – Group

Group Loss allowance	2020					2019				
In KShs'000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers – Total										
Balance at 1 January	40,655	6,068	620,748	-	667,471	20,493	1,194	617,777	-	639,464
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	(3,555)	3,756	(201)	-	-	(798)	798	-	-	-
Transfer to Stage 3	(22)	(1,374)	1,396	-	-	(118)	-	118	-	-
Net re-measurement of loss allowance	7,761	13,475	114,914	-	136,151	16,593	4,077	30,773	-	51,443
Net financial assets originated or purchased	3,303	-	5,205	-	8,508	11,417	-	-	-	11,417
Financial assets that have been derecognized	(18,980)	-	-	-	(18,981)	(6,932)	-	-	-	(6,932)
Write offs	-	-	(139,477)	-	(139,477)	-	(1)	(27,920)	-	(27,921)
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**29,162**	**21,925**	**602,585**	**-**	**653,672**	**40,655**	**6,068**	**620,748**	**-**	**667,471**

(c) Amounts arising from ECL – Company

Company Loss allowance	2020					2019				
In KShs'000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to										
customers – Total										
Balance at 1 January	40,655	6,068	482,215	-	528,938	20,493	1,194	479,244	-	500,391
Transfer to Stage 1	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	(3,555)	3,756	(201)	-	-	(798)	798	-	-	-
Transfer to Stage 3	(22)	(1,374)	1,396	-	-	(118)	-	118	-	-
Net re-measurement of loss allowance	7,761	13,475	114,914	-	136,151	16,593	4,077	30,773	-	51,443
Net financial assets originated or purchased	3,303	-	5,205	-	8,508	11,417	-	-	-	11,417
Financial assets that have been derecognized	(18,980)	-	-	-	(18,981)	(6,932)	-	-	-	(6,932)
Write offs	-	-	(944)	-	(944)	-	(1)	(27,920)	-	(27,921)
Recoveries	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-	-	-	-	-
Balance at 31 December	**29,162**	**21,925**	**602,585**	**-**	**653,672**	**40,655**	**6,068**	**482,215**	**-**	**528,938**

(d) Loans and advances to customers movement – Group

Group Gross loans movement			2020		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2019/ 1 January 2020	8,495,257	330,563	944,211	-	9,770,031
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(114,491)	114,491	-	-	-
Transfer to Stage 3	(128,787)	(197,018)	325,805	-	-
Net re-measurement of loss allowance	(467,373)	74,639	57,202	-	(335,532)
Net financial assets originated or purchased	1,096,312	-	-	-	1,096,312
Financial assets that have been derecognised	(1,836,057)	-	-	-	(1,836,057)
Write offs	-	-	(146,663)	-	(146,663)
Recoveries	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2020	**7,044,861**	**322,675**	**1,180,555**	**-**	**8,548,091**

Group Gross loans movement			2019		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2018/ 1 January 2019	8,595,862	111,189	960,439	-	9,667,490
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(189,552)	189,552	-	-	-
Transfer to Stage 3	(33,361)	-	33,361	-	-
Net re-measurement of loss allowance	(591,247)	31,383	(21,440)	-	(581,304)
Net financial assets originated or purchased	2,098,358	-	-	-	2,098,358
Financial assets that have been derecognised	(1,384,803)	-	-	-	(1,384,803)
Write offs	-	(1,561)	(28,149)	-	(29,710)
Recoveries	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2019	**8,495,257**	**330,563**	**944,211**	**-**	**9,770,031**

The table above represents the movement in loan outstanding balances within the year based on the staging of the loan.

Company Gross loans movement			2020		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2019/ 1 January 2020	8,495,257	330,563	799,183	-	9,625,003
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(114,491)	114,491	-	-	-
Transfer to Stage 3	(128,787)	(197,018)	325,805	-	-
Net re-measurement of loss allowance	(467,373)	74,639	57,202	-	(335,532)
Net financial assets originated or purchased	1,096,312	-	-	-	1,096,312
Financial assets that have been derecognised	(1,836,057)	-	-	-	(1,836,057)
Write offs	-	-	(1,635)	-	(1,635)
Recoveries	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2020	**7,044,861**	**322,675**	**1,180,555**	**-**	**8,548,091**

Company Gross loans movement			2019		
In KShs'000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers – Total					
Balance at 31 December 2018/ 1 January 2019	8,595,862	111,189	815,411	-	9,522,462
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(189,552)	189,552	-	-	-
Transfer to Stage 3	(33,361)	-	33,361	-	-
Net re-measurement of loss allowance	(591,247)	31,383	(21,440)	-	(581,304)
Net financial assets originated or purchased	2,098,358	-	-	-	2,098,358
Financial assets that have been derecognised	(1,384,803)	-	-	-	(1,384,803)
Write offs	-	(1,561)	(28,149)	-	(29,710)
Recoveries	-	-	-	-	-
Foreign exchange and other movements-	-	-	-	-	
Balance at 31 December 2019	**8,495,257**	**330,563**	**799,183**	**-**	**9,625,003**

The table above represents the movement in loan outstanding balances within the year based on the staging of the loan.

(e) Non-performing loans and advances – Group and Company

Loans and advances include a net amount of KShs 577,970,000 (2019 – KShs 323,463,000) for the Group which have been classified as non-performing. The estimated value of securities held against this net balance is KShs 656,865,000 (2019 – KShs 413,036,000).

	2020 KShs'000	2019 KShs'000
Interest on impaired loans and advances which has not yet been received in cash	**325,084**	**316,960**

19. OTHER ASSETS

Group and Company		
Items in transit	93,027	120,647
Accounts receivable and prepayments	225,476	178,292
	318,503	**298,939**

20. INVESTMENT IN SUBSIDIARIES - Company

(a) Investment in subsidiaries

Company ownership			
The First National Finance Bank Limited	100%	104,375	104,375
Guilders International Bank Limited	100%	196,000	196,000
		300,375	**300,375**

In the view of the directors, the investment in subsidiaries is not impaired.

(b) Balances due to subsidiary companies

	2020 KShs'000	2019 KShs'000
The First National Finance Bank Limited	156,245	156,245
Guilders International Bank Limited	208,547	208,547
	364,792	**364,792**

The amounts due to related companies are due after five years and bears no interest. The balances are unsecured.

21. PROPERTY AND EQUIPMENT

Group and Company 2020:	Buildings	Leasehold improvements	Equipment furniture and fittings	Motor vehicles	Capital work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost						
At 1 January 2020	51,503	83,476	130,946	49,938	375	316,238
Additions	-	1,220	12,975	1,277	-	15,472
Write offs	-	-	(497)	-	-	(497)
Disposals	-	-	(2,401)	(1,691)		(4,092)
At 31 December 2020	51,503	84,696	141,023	49,524	375	327,121
Depreciation						
At 1 January 2020	20,274	75,984	114,420	42,833	-	253,511
Charge for the year	1,570	3,522	8,073	2,143	-	15,308
Write offs	-	-	(497)	-	-	(497)
Disposals	-	-	(2,401)	(1,691)		(4,092)
At 31 December 2020	21,844	79,506	119,595	43,285	-	264,230
Carrying amount						
At 31 December 2020	**29,659**	**5,190**	**21,428**	**6,239**	**375**	**62,891**

Group and Company 2019:	Buildings	Leasehold improvements	Equipment furniture and fittings	Motor vehicles	Capital work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost						
At 1 January 2019	51,503	83,476	129,675	44,849	-	309,503
Additions	-	-	3,896	7,649	375	11,920
Write offs	-	-	(2,625)	-	-	(2,625)
Disposals	-	-	-	(2,560)	-	(2,560)
At 31 December 2019	51,503	83,476	130,946	49,938	375	316,238
Depreciation						
At 1 January 2019	18,704	70,011	109,941	37,027	-	235,683
Charge for the year	1,570	5,973	6,928	8,366	-	22,837
Write offs	-	-	(2,449)	-	-	(2,449)
Disposals	-	-	-	(2,560)	-	(2,560)
At 31 December 2019	20,274	75,984	114,420	42,833	-	253,511
Carrying amount						
At 31 December 2019	**31,229**	**7,492**	**16,526**	**7,105**	**375**	**62,727**

The gross carrying value of fully depreciated leasehold improvements and equipment that are still in use is KShs 213,175,185 (2019 – KShs 174,744,196). Such assets would have attracted a notional depreciation of KShs 45,613,629 (2019 – KShs 33,286,426).

22. INTANGIBLE ASSETS - SOFTWARE

Group and Company	2020 KShs'000	2019 KShs'000
Cost		
At 1 January	26,724	24,330
Additions	1,303	3,546
Write-offs	-	(1,152)
At 31 December	28,027	26,724
Amortisation		
At 1 January	22,900	22,590
Amortisation during the year	1,775	1,461
Write-offs	-	(1,151)
At 31 December	24,675	22,900
Carrying amount as at 31 December	**3,352**	**3,824**

23. DEFERRED TAX ASSET

Group and company

Deferred tax asset at 31 December 2020 and 2019 is attributable to the items detailed in the table below:

	At 1 January 2020	Prior year under provision	Recognised in profit or loss	At 31 December 2020
	KShs'000	KShs'000	KShs'000	KShs'000
Property and equipment	6,478	-	520	6,998
Provision for loans and advances	98,161	-	41,157	139,318
Gratuity provisions	18,971	-	207	19,178
Other provisions	(128)	3,788	1,085	4,745
Right of use asset	5,466	(1,829)	5,088	8,725
Leave provision	1,580	-	-	1,580
	130,528	**1,959**	**48,057**	**180,544**

2019	At 1 January 2019	Recognised in profit or loss	At 31 December 2019
	KShs'000	KShs '000	KShs '000
	Arising from:		
Property and equipment	5,755	723	6,478
Provision for loans and advances	109,306	(11,145)	98,161
Gratuity provision	20,559	(1,588)	18,971
Other provisions	-	(128)	(128)
Right of use asset	-	5,466	5,466
Leave provision	980	600	1,580
	136,600	**(6,072)**	**130,528**

24. CUSTOMERS DEPOSITS

Group and Company	2020 KShs'000	2019 KShs'000
Non-profit institutions and individuals	10,970,996	9,204,723
Private enterprises	1,039,341	2,782,174
Foreign currency accounts	1,201,927	1,079,996
	13,212,264	**13,066,893**

25. OTHER LIABILITIES

Group and Company		
Accruals	308,804	128,999
Sundry creditors	75,333	81,015
Expected credit losses on off balance sheet items	6	31
	384,143	**210,045**

26. PROVISIONS
Group and Company

(a) Gratuity provision

The Company operated a non-contributory gratuity scheme for qualifying employees paid at the discretion of management until 31 August 2018. An employee who worked for more than five years was eligible for the gratuity amount based on the lower of six months monthly salary or an equivalent of 15 days salary for every year worked. The lump sum benefits were payable to the employees of the Bank on their normal retirement at age 55, on leaving service, on ill-health early retirement or on death in service based on service completed and salary at date of leaving service. The most recent actuarial valuations of the present value of the obligation were carried out at 31 December 2018 by Zamara Actuaries, Administrators & Consultants Limited (formerly, Alexander Forbes).

The gratuity scheme was stopped on 31 August 2018, however gratuity that had accrued for qualifying employees is still held in the scheme and will be paid at management's discretion when the above criteria is met. From 1 September 2018 all staff were transferred to the defined contribution scheme.

A provision is made in the financial statements for the estimated liability in respect of the benefits promised under the arrangement. The movement in provision is as shown below:

	2020 KShs'000	2019 KShs'000
Value of obligation at 1 January	63,236	68,530
Final dues paid during the year	-	(5,294)
Interest on investment in treasury bills	689	-
Actuarial loss – obligation	-	-
	63,925	**63,236**
Included in profit or loss		
Actuarial loss – obligation	-	-

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	14.5% per annum
Salary escalation rate	6% per annum
Mortality–in–service	A 1949/52 Ultimate
Ill-health early retirement	At rates consistent with similar arrangements
Withdrawals	At rates consistent with similar arrangements
Retirement age	55 years

The actuarial valuation of the gratuity arrangement are sensitive to the actuarial assumptions made which could change based on future events.

(b) Other provisions	2020 KShs'000	2019 KShs'000
Leave provision	5,267	5,267
Utility costs	4,442	3,564
	9,709	**8,831**
Total gratuity and other provisions	**73,634**	**72,067**

27. RESERVES

Group and Company

(a) Share capital		
Authorised 25,000,000 ordinary shares of KShs 20 each	**500,000**	**500,000**
Issued and fully paid 22,518,750 ordinary shares of KShs 20 each	450,375	450,375

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the parent company.

(b) Statutory credit risk reserve

This represents an amount set aside to cover additional provisions for loan losses required to comply with the requirements of Central Bank of Kenya Prudential Guidelines. The amount is not available for distribution. The reserve balance as at 31 December 2020 was KShs 184,833,000 (2019 – 217,053,000).

28. ASSETS PLEDGED AS SECURITY

As at 31 December 2020, treasury bonds/bills amounting to KShs 50,000,000 (2019 – KShs 50,000,000) with Bank of India were pledged as security for letter of credit facilities.

29. NOTES TO THE STATEMENT OF CASH FLOWS

Group	**2020**	**2019**
(a) Reconciliation of profit before income tax to cash flows from operating activities	**KShs '000**	**KShs '000**
Profit before income tax	76,694	250,549
Adjustment for:		
Depreciation of property and equipment (Note 21)	15,308	22,837
Amortisation of right-of-use assets (Note 32(a))	35,546	38,105
Amortisation of intangible asset (Note 22)	1,775	1,461
Loss on property and equipment write off	-	176
Interest on lease liabilities	34,492	37,842
Profit on sale of property and equipment (Note 9)	(1,410)	(1,695)
	162,405	**349,275**
Changes in:		
Central Bank of Kenya cash reserve ratio	123,619	14,106
Other investments	5,067	(5,067)
Loans and advances to customers	1,208,141	(74,533)
Government securities maturing in more than 3 months	(990,971)	265,216
Other assets	(19,564)	(55,309)
Customers deposits	145,371	(266,578)
Other liabilities	174,098	7,662
Provisions	1,567	(1,047)
	809,733	**233,725**
Interest paid on lease liabilities	(34,492)	(37,842)
Income taxes paid (Note 12(b))	(16,315)	(131,281)
Net cash flows from operating activities	**758,926**	**64,602**

Company		
(b) Reconciliation of profit before income tax to cash flows from operating activities		
Profit before income tax	83,189	250,549
Adjustment for:		
Depreciation of property and equipment (Note 21)	15,308	22,837
Amortisation of right-of-use assets (Note 32(a))	35,546	38,105
Amortisation of intangible asset (Note 22)	1,775	1,461
Loss on write off of asset	-	176
Interest on lease liabilities	34,492	37,842
Profit on sale of property and equipment (Note 9)	(1,410)	(1,695)
	168,900	**349,275**
Change in:		
Central Bank of Kenya cash reserve ratio	123,619	14,106
Other Investments	5,067	(5,067)
Loans and advances to customers	1,201,646	(74,533)
Government securities maturing in more than 3 months	(990,971)	265,216
Other assets	(19,564)	(55,309)
Customers deposits	145,371	(266,578)
Other liabilities	174,098	7,662
Provisions	1,567	(1,047)
	809,733	233,725
Interest paid on lease liabilities	(34,492)	(37,842)
Income taxes paid (Note 12(d))	(16,315)	(131,281)
Net cash flows from operating activities	758,926	64,602

(c) Analysis of the balances of cash and cash equivalents

Group and Company	2020 KShs '000	2019 KShs '000	Change in the year KShs '000
Balances with Central Bank of Kenya	680,036	731,490	(51,454)
Cash on hand	167,288	161,288	6,000
Placements with other banks	780,351	702,625	77,726
Term deposits maturing within 3 months	700,259	-	700,259
Treasury bills maturing within 3 months	1,357,090	1,356,646	444
	3,685,024	**2,952,049**	**732,975**

30. CONTINGENT LIABILITIES

Group and Company

In the ordinary course of business, the Group and Company conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	2020 KShs '000	2019 KShs '000
Commitments with respect to:		
Irrevocable letters of credit	235,477	326,791
Guarantees	423,149	462,905
Bills for collection	11,347	34,589
Swaps	120,506	96,363
Less impairment allowance	(6)	(32)
	790,473	**920,616**

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties. The Group and Company will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Group and Company to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group and Company expects most acceptances to be presented and reimbursement by the customer is almost immediate.

In the ordinary course of business, the bank and its subsidiaries are defendants in various litigation and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

31. RELATED PARTY TRANSACTIONS

(a) Loans and advances

The Bank has entered into transactions with its staff, directors, significant shareholders and their affiliates.

	2020 KShs'000	2019 KShs'000
The aggregate amount of loans:		
Loans to employees:		
Balance at the beginning of the year	18,690	19,650
Loans advanced during the year	15,405	12,449
Loans repayments received	(14,344)	(13,409)
Balance at end of year	**19,751**	**18,690**
Loans and advances to directors, shareholders and associates	67,287	84,593
Off balance sheet items	**28,539**	**13,556**

The related interest income in 2020 was KShs 6,939,000 (2019 – KShs 8,360,000).

(b) Key management remuneration	2020 KShs '000	2019 KShs '000
Salaries and other employee benefits	**113,480**	**101,611**

Salaries and other employee benefits include those relating to the senior management.

The aggregate amounts of deposits withdrawn by related parties during the year ended 31 December 2020 were KShs 6,035,100,000 (2019 – KShs 1,559,096,000). The aggregate amounts of deposits made by related parties during the same period were Kshs. 5,833,385,000 (2019 – KShs 3,214,694,000).

32. RIGHT OF USE ASSETS – Group and Company

(a) Leasehold Land and office and branch premises

2020:	Leasehold Land KShs'000	Office and branch premises KShs'000	Total KShs'000
Cost			
At 1 January	269,201	308,521	577,722
Lease modifications	-	(5,333)	(5,333)
	269,201	303,188	572,389
Amortisation			
At 1 January	43,124	30,106	73,230
Amortisation for the year	7,999	27,547	35,546
At 31 December	51,123	57,653	108,776
Carrying amount			
As at 31 December	**218,078**	**245,535**	**463,613**

2019:	Land KShs'000	Leasehold branch premises KShs'000	Office and Total KShs'000
Cost			
At 1 January and 31 December	269,201	308,521	577,722
Amortisation			
At 1 January	35,125	-	35,125
Amortisation for the year	7,999	30,106	38,105
At 31 December	43,124	30,106	73,230
Carrying amount			
As at 31 December	**226,077**	**278,415**	**504,492**

Right of use assets in respect of leasehold land are recognised as an asset and amortised over the lease period. The Group and Company holds leases over two pieces of land in Parklands and Nairobi Central Business District (CBD) which are being amortised on a straight line basis over 33 years and 40 years respectively.

The Group and Company leases a number of office premises for branch operations. The leases typically run for an initial period of between five and six years with an option to renew the lease at its expiry for the same period. This has been classified as right of use assets above.

(b) Lease liabilities

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group and Company's incremental borrowing rate.

	2020 KShs'000	2019 KShs'000
Balance at 1 January	296,635	308,521
Lease modifications	(5,333)	
Interest expense	34,492	37,842
Repayment of the lease liability	(45,078)	(49,728)
Balance at 31 December	**280,716**	**296,635**

See Note 4(b) for maturity analysis of lease liabilities as at 31 December 2020 and 2019.

(c) Amounts recognised in profit or loss

	2020 KShs'000	2019 KShs'000
Interest on lease liabilities	34,492	37,842
Amortisation of right of use assets	35,546	38,105
Balance at 31 December	**70,038**	**75,947**

(d)Amounts recognised in statement of cash flows

	2020 KShs'000	2019 KShs'000
Payment of interest on lease liabilities	34,492	37,842
Payment of principal lease liabilities	10,586	11,886
Balance at 31 December	**45,078**	**49,728**

(e) Extension options

Some leases of office premises contain extension options exercisable by the Group at the end of the contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The Group and Company has estimated that the potential future lease payments, should it exercise the extension option would result in an increase in lease liability of KShs 123.1 million (2019 – KShs 130.8 million).

33. UPDATE ON COVID-19

The ongoing COVID-19 pandemic is causing major disruptions to community health and economic activity with wide-ranging impacts across many business sectors globally. Additionally, a number of the Group and Company's customers have been impacted by the COVID-19 pandemic. Regulators and government have implemented a broad range of measures to promote financial stability in response to COVID-19. Those measures implemented by government and regulators in Kenya include tax relief on both businesses and individual, liquidity and funding initiatives to strengthen the banking system. The regulator of the Banking sector in the country quickly raised to the occasion and announced various mitigating measures to the banking public, especially the borrowers and mandated banks to consider repayment holiday to all kind of loans and advances for their borrowings for the period beginning March 2020 to February 2021 subject to these loans and advances having been regular as at 2 March 2020 and there being no default earlier in the loans and advances accounts.

All eligible requests received under the regulator relief measures have been promptly taken up and approval accorded. The Group and Company allowed for repayment holiday for the principal loans and advances amounts and/or the monthly interest on such loans and advances.

The ongoing COVID-19 pandemic has also increased the estimation uncertainty in the preparation of the financial statements. The Group and Company has made various accounting estimates for future events in the consolidated and separate financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 and that the Group and Company believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group and Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

While pervasive across the consolidated and separate financial statements, the estimation uncertainty is predominantly related to expected credit losses where the Group and Company recognised a credit impairment charge of KShs 137 million (pre-tax) in the year ended 31 December 2020 (2019: KShs 24 million). For further details of these estimation uncertainties, refer to the detailed notes in the financial statements. The ramifications of COVID-19 continue to be uncertain and it remains difficult to predict the impact or duration of the pandemic.

34. SUBSEQUENT EVENTS

There are no material events after the reporting date which require to be disclosed.

NOTES

NOTES

NOTES

Head Office
Guardian Centre, Biashara Street
P. O. Box: 67681 – 00200, Nairobi
Landline: 020 8693300
Mobile: 0703 005000
headoffice@guardian-bank.com

Biashara Street Branch
Guardian Centre, Biashara Street
P. O. Box: 67437 – 00200, Nairobi
Landline: 020 8693300
Mobile: 0703 005000
biashara@guardian-bank.com

Mombasa Road Branch
Tulip House, Ground Floor, Mombasa Road
P. O. Box: 42062 – 00100, Nairobi
Landline: 020 8693300
Mobile: 0703 005000
msaroad@guardian-bank.com

Westlands Branch
Brick Court Hse, Mpaka Road
P. O. Box: 66568 – 00800, Nairobi
Landline: 020 8693300
Mobile: 0703 005000
westlands@guardian-bank.com

Ngong Road Branch
The Greenhouse, Ground floor, Ngong Road,
P. O. Box No. 9822 – 00200, Nairobi.
Landline: 020 8693300
Mobile: 0703 005000
ngongrd@guardian-bank.com

Eldoret Branch
Biharilal House, Uganda Road
P. O. Box: 7685 – 30100, Eldoret
Landline: 020 8693300
Mobile: 0703 005000
eldoret@guardian-bank.com

Kisumu Branch
Amalo Plaza, Ground Floor, Oginga Odinga Rd.,Central Square
P. O. Box: 2816 – 40100, Kisumu
Landline: 020 8693300
Mobile: 0703 005000
kisumu@guardian-bank.com

Nakuru Branch
Parana House, Ground Floor, Kenyatta Avenue
P. O. Box 18633 – 20100, Nakuru
Landline: 020 8693300
Mobile: 0703 005000
nakuru@guardian-bank.com

Mombasa Branch
Oriental Building, Nkrumah Rd
P. O. Box: 40619 – 80100, Mombasa
Landline: 020 8693300
Mobile: 0703 005000
mombasa@guardian-bank.com

Nyali Branch
Links Plaza, Ground floor,Links Road,
P. O. Box No. 34375 – 80118, Nyali
Landline: 020 8693300
Mobile: 0703 005000
nyali@guardian-bank.com