

UBA KENYA BANK LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



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DIRECTORS

Alphan Njeru (Chairman) – Appointed on 4 January 2020
James Olubayi (Chairman) – Resigned on 30 December 2020
Olive Mugenda
Oliver Alawuba
Ebele Ogbue
Susan Omanga
Kenneth Orji
Emeke E. Iweriebor (Interim MD/CEO) – Resigned on
26.06.2020

COMPANY SECRETARY

Debra Ajwang'-Ogada
Certified Public Secretary (Kenya)
P O Box 34154 - 00100
Nairobi

HEAD OFFICE

UBA Kenya Bank Limited
1st Floor, Apollo Centre
Ring Road, Westlands
P O Box 34154 - 00100
Nairobi

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/Chiromo Road
P O 43963 - 00100
Nairobi

LEGAL ADVISORS

Mwaniki Gachoka Law Advocates
The Westery, MG Law Chambers, 5th Floor
Mpesi Lane off Muthithi Road, Westlands
P.O. Box 13439-00800
Nairobi, Kenya.

The Board of Directors of UBA Kenya Bank Limited (the "Bank") is committed to implementing the highest standards of corporate governance. In doing this, the Bank has adopted corporate governance policies and practices that meet or exceed applicable legal and regulatory requirements.

Board of Directors

The Bank is managed under the direction of the Board of Directors (the "Board"), which is responsible for providing strategic direction and effective oversight of management and maximization of the Bank's financial performance and shareholder value within the framework of appropriate risk management.

The Board has set a structure and standards to ensure that the directors are independent. The Chairman's responsibility is to lead and manage the work of the Board and to ensure that it operates effectively and fully discharges its legal and regulatory role. Non-executive directors, based on their breadth of knowledge and experience, challenge, monitor and approve the strategies and policies recommended by the Managing Director. The Board meets regularly. During the past financial year, the Board held four meetings. Matters requiring urgent attention are resolved through Circular resolutions.

Board Committees

The Board has established various committees to assist in the discharge of its responsibilities. The committees operate within and in accordance with clearly set terms of reference. These committees, their composition and responsibilities are as follows:

Board Audit and Risk Management Committee

The Board Audit and Risk Management Committee comprises of the following Directors:

S/N	Name of Director	Number of Meetings Held	Number of Meetings Attended	% Attendance
1	Alphan Njeru	4	4	100%
2	Olive Mugenda	4	4	100%
3	Ebele Ogbue	4	4	100%
4	Susan Omanga	4	4	100%

The committee comprises of four non-executive directors. The committee meets quarterly and it has two roles as a Board Audit Committee and as Board Risk Management Committee. As a Board Audit Committee, it is charged with reviewing the financial condition of the Bank, its internal control systems, and recommend appropriate remedial action. The committee receives reports from both external and internal auditors; it monitors the implementation of audit recommendations and deliberates on the significant findings arising from inspections by the bank supervision department of the Central Bank of Kenya.

As a Board Risk Management Committee, its role is to ensure quality, integrity and reliability of the Bank's risk management. This is achieved through monitoring, reviewing and assessing the integrity and adequacy of the overall risk management framework and setting the Bank's appetite and tolerance for risk and approving risk limits within acceptable tolerance for risk, considering and approving all risk management policies and frameworks and monitoring compliance risk.

Board Credit Committee

The Board Credit Committee comprises of the following Directors:

S/N	Name of Director	Number of Meetings Held	Number of Meetings Attended	% Attendance
1	Kenneth Orji	4	4	100%
2	Oliver Alawuba	4	4	100%
3	Ebele Ogbue	4	4	100%
4	Alphan Njeru	4	4	100%

The committee is composed of four non-executive directors and the executive director. The committee meets on a quarterly basis. The role of the committee is to oversee the lending policy of the Bank. It also appraises and approves credit applications within the limits set by the Board and reviews the quality of the loans portfolio ensuring that adequate provisions are held in line with CBK Prudential Guidelines.

Finance & Governance Committee

The Finance & Governance Committee comprises of the following Directors:

S/N	Name of Director	Number of Meetings Held	Number of Meetings Attended	%Attendance
1	Oliver Alawuba	4	4	100%
2	Olive Mugenda	4	4	100%
3	Susan Omanga	4	4	100%
4	Kenneth Orji	4	4	100%

The committee comprises four non-executive directors and the executive director and meets on a quarterly basis. The role of the committee is to recommend strategic initiatives to the Board, review the budget and the audited accounts and the compensation policy.

Board Evaluation

In the financial year ended 31 December 2020, the Board undertook a formal evaluation of its performance and that of its committees and individual directors. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities. Overall, the results of the evaluation were positive and indicated that the Board and committees were effective and that no major changes were required. The report was submitted to CBK as required by the CBK Prudential Guidelines.

Board Meetings

The Board held 4 meetings in the year. The meetings were held in an atmosphere of intellectual honesty of purpose, integrity and mutual respect, requiring reporting of the highest standard by management and direct, robust and constructive challenge and debate among Board and committee members.

	Director	Executive/ Non-executive	Meetings attended	% attendance	Date joined	Date exited
1	James Olubayi	Non-executive	4	100	29 Mar 2010	30 Dec 2020
2	Olive Mugenda	Non-executive	4	100	24 Mar 2016	N/A
3	Oliver Alawuba	Non-executive	4	100	17 Jun 2016	N/A
4	Alphan Njeru	Non-executive	4	100	19 Dec 2016	N/A
5	Ebele Ogbue	Non-executive	4	100	9 Feb 2017	N/A
6	Susan Omanga	Non-executive	4	100	3 May 2017	N/A
7	Kenneth Orji	Non-executive	4	100	18 Sep 2018	N/A

Management Committees

The Managing Director has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities, which operate within prescribed Terms of Reference as approved by the Board. These committees include the Assets and Liabilities Committee (ALCO), Executive Credit Committee, Executive Management Committee and the Risk Management Committee.

The directors submit their report together with the audited financial statements of UBA Kenya Bank Limited (the "Bank") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and the provision of related services.

DIVIDEND

The net profit for the year of Shs 39,494,000 (2019: of Shs 43,082,000) has been deducted from accumulated losses. The directors do not recommend payment of any dividend for the year (2019: nil).

BUSINESS REVIEW

Interest income increased marginally to Shs 1,543 million (2019: Shs 1,524 million - Restated) largely driven by decreased drawdowns and paydown of loans & advances. This could also be attributed to reduced yield rate of NGN treasury bills reinvested in the year.

Interest expense increased by 8% to Shs 860 million (2019: Shs 799 million) driven by interest charged on overdrawn Nostro accounts and CBK reverse Repo. Consequently, the net impact was a dip in net interest income by 6% to (Shs 682 million (2019: 725 million).

Net trading income increased greatly by 129% to Shs 315 million (2019: Shs 138 million) as a result of increased FX sales volumes and arbitrage opportunities.

Operating expenses increased by 2% in 2020 to Shs 638 million (2019: Shs 628 million) the relatively small increase reflect a tight control on cost.

Management is optimistic about the future and have put in place the necessary strategies to take advantage of emerging opportunities in the market.

Key performance metrics

The table below highlights some of the key performance indicators:

Key Performance Indicators	2020	2019 Restated
Profit before income tax (Shs '000)	55,972	81,072
Customer Deposits (Shs '000)	7,771,759	6,932,933
Net interest income (Shs '000)	682,866	724,939
Net Operating income (Shs '000)	694,162	709,086
Loan to Deposit Ratio	34%	52%
Cost to Income	66%	73%
Liquidity Ratio	85.50%	75.8%

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 2.

AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

(a) there is, as far as each director is aware, no relevant audit information of which the company's auditors are unaware; and

(b) each director had taken all steps that ought to have been taken as a director, so as to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the Board



Company Secretary

25TH March 2021

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

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

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

Having made an assessment of the ability of the Bank to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the use of going concern basis for preparation of these financial statements.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 25 March 2021 and signed on its behalf by:



Kehinde Lateef Omirinde
Ag. CEO



Alphan Njeru
Director



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UBA KENYA BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of UBA Kenya Bank Limited (the "Bank") set out on pages 12 to 61 which comprise the statement of financial position at 31 December 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UBA KENYA BANK LIMITED (CONTINUED)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UBA KENYA BANK LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 6 to 7 is consistent with the financial statements.

Bernice Kimacia

**Certified Public Accountants
Nairobi**

31 March 2021

**CPA Bernice Kimacia , Practising Certificate No. 1457
Signing partner responsible for the independent audit**



Statement of profit or loss and other comprehensive income

	Note	2020 Shs'000	Restated 2019 Shs'000
Interest income	5	1,543,023	1,524,191
Interest expense	6	(860,157)	(799,252)
Net interest income		682,866	724,939
Fees and commission income	7	52,172	52,896
Fees and commission expense	7	(56,580)	(37,800)
Net fees and commission (expenses)/ income		(4,408)	15,096
Net trading and revaluation income	8	314,826	137,667
Credit impairment losses	10	(298,830)	(171,056)
Other operating income	9	11,994	2,440
Net trading and other income		27,990	(30,949)
Net operating income		706,448	709,086
Employee benefit expenses	11	(331,311)	(358,731)
Depreciation and amortisation	12	(30,126)	(35,477)
Depreciation of lease asset		(30,722)	(30,722)
Finance cost		(4,141)	(6,847)
Other operating expenses	13	(254,176)	(196,237)
Profit before income tax		55,972	81,072
Income tax expense	14	(16,478)	(37,990)
Profit for the year		39,494	43,082

Statement of financial position

	Notes	2020 Shs'000	Restated 2019 Shs'000
Assets			
Cash and balances with the Central Bank of Kenya	15	705,811	411,580
Deposits and balances due from banking institutions	17	3,341,549	3,325,204
Loans and advances to customers	18	2,615,732	3,629,616
Government securities at amortised cost	19	10,580,940	7,909,337
Property and equipment	20	61,238	78,298
Intangible assets	21	2,857	4,829
Right-of-use assets	22	24,554	55,276
Deferred income tax	24	297,521	313,998
Other assets	23	1,112,972	335,674
Total assets		18,743,174	16,063,812
Liabilities			
Deposits and balances due to banking institutions	25	8,132,418	6,666,764
Deposits from customers	26	7,771,759	6,932,933
Lease Liability	27	26,583	57,442
Other liabilities	28	555,621	189,374
Total liabilities		16,486,381	13,846,513
Capital and reserves			
Share capital	29	1,261,713	1,261,713
Share premium	29	2,384,754	2,384,754
Accumulated losses		(1,389,674)	(1,429,168)
Total equity		2,256,793	2,217,299
Total equity and liabilities		18,743,174	16,063,812

The financial statements on pages 12 to 61 were approved for issue by the Board of Directors on 25 March 2021 and signed on its behalf by:



Kehinde Lateef Omirinde
Director



Alphan Njeru
Director

UBA Kenya Bank Limited
Annual Report and Financial Statements
For the year ended 31 December 2020

Statement of changes in equity

	Notes	Share Shs'000	Share Shs'000	Accumulated Shs'000	Regulatory Shs'000	Total equity Shs'000
Year ended 31 December 2019						
At start of year as previously stated		1,261,713	2,384,754	(1,472,250)	-	2,174,217
Profit and total comprehensive income for the year (restated*)		-	-	43,082	-	43,082
Other comprehensive income		-	-	-	-	-
At end of year (restated*)		1,261,713	2,384,754	(1,429,168)	-	2,217,299
Year ended 31 December 2020						
Restated total equity at 1 January 2020		1,261,713	2,384,754	(1,429,168)	-	2,217,299
Profit and total comprehensive income for the year		-	-	39,494	-	39,494
Other comprehensive income		-	-	-	-	-
At end of the year		1,261,713	2,384,754	(1,389,674)	-	2,256,793

*See note 33 for details of the restatement

Statement of cash flows

	Notes	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Cash generated from operations	32	361,612	407,344
Cash flows from investing activities			
Purchase of property and equipment	20	(12,436)	(17,185)
Proceeds from disposal of property, plant and Right-of-use assets		1,510	1,345
		-	37,569
Net cashflow from investing activities		(10,926)	21,729
Cash flows from financing activities			
Payments of principal portion of the lease		(30,859)	(28,556)
Interest paid on borrowings		(43,281)	-
Net cashflow from financing activities		(74,140)	(28,556)
Net increase in cash and cash equivalents		276,546	400,517
Cash and cash equivalents at start of year		3,566,095	3,165,578
Cash and cash equivalents at end of year	16	3,842,641	3,566,095

Notes - Continued

1 General information

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

UBA Kenya Bank Limited
1st Floor, Apollo Centre
Ring Road, Westlands
PO Box 34154 - 00100
Nairobi

2 Summary of Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

(a) Basis of measurement

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Use of estimates

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

(c) Changes in accounting policies and disclosures

(i) New standards, amendments and interpretations adopted by the Bank

The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2020:

Number	Effective date	Executive summary
Amendment to IAS1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	Annual periods beginning on or after 1 January 2020 (Published October 2018)	<p>These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:</p> <ul style="list-style-type: none"> • use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. <p>The amended definition is:</p> <p><i>"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."</i></p>

Notes - Continued

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policy and disclosures

(ii) New and amended standards not yet adopted by the Bank

Number	Effective date	Executive summary
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (Published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non- current	Annual periods beginning on or after 1 January 2022 (Published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

Notes - Continued

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policy and disclosures (continued)

(ii) New and amended standards not yet adopted by the Bank (continued)

Number	Effective date	Executive summary
Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	<ul style="list-style-type: none"> IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. <p>IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.</p>

The Directors do not plan to apply the above standards, until they become effective.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

Notes - Continued

2.2 Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency").

The financial statements are presented in Kenya Shillings (Shs), which is the Bank's presentation currency. The figures shown in the financial statements are rounded off to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions.

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

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

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

2.3 Financial instruments

2.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Bank calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

Amortised cost and effective interest rate (continued)

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

Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Notes - Continued

2.3 Financial instruments (continued)

2.3.1 Financial assets and liabilities (continued)

Financial assets

i) Classification and subsequent measurement

The Bank classifies its financial assets as Amortised cost

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income" using the effective interest rate method. - Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income".

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Bank of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Bank as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets and liabilities (continued)

Financial assets (continued)

i) *Classification and subsequent measurement (continued)*

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

ii) *Impairment*

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

iii) *Modification of loans*

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in interest rate;
- Change in the currency of the loan; and
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets and liabilities (continued)

Financial assets (continued)

iii) *Modification of loans (continued)*

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes including for the purpose of determining whether a significant credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

iv) *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition of the Bank:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from assets without material delays.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

Financial liabilities

i) *Classification and subsequent measurement*

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

Notes - Continued

2 Summary of significant accounting policies (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets and liabilities (continued)

Financial liabilities (continued)

ii) Derecognition

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

Financial guarantee contracts and loan commitments

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration.

If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

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

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.4 Cash and cash equivalents (continued)

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with Central Bank of Kenya, treasury bills and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

2.5 Property and equipment

All property and equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is capitalized. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- | | |
|--------------------------------|---|
| – Leasehold improvements | 6 years, or over the period of the lease if less than 6 years |
| – Equipment and motor vehicles | 4 - 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.6 Intangible assets

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

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

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

Notes - Continued

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.7 Employee benefits

(a) Pension obligations

The Bank operates a defined contribution pension scheme, which is funded by the Bank at 7.5% and by employee at 7.5% based on annual basic salary for each staff.

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

The Bank also makes contribution to the National Social Security Fund, a statutory defined contribution pension scheme. The Bank's obligation under the scheme is limited to the specific contributions legislated from time to time.

(b) Other entitlements

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

2.8 Swaps and forward foreign exchange contracts

Swaps and forward foreign exchange contracts are carried at their fair value. Fair values are obtained from appropriate pricing models.

Gains and losses on swaps and forward foreign exchange contracts are included in foreign exchange income as they arise.

2.9 Provisions

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

Notes - Continued

2 Summary of significant accounting policies (continued)

2.9 Provisions (continued)

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

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

2.10 Income tax

(a) Current income tax

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

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

(b) Deferred income tax

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

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

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

Notes - Continued

2 Summary of significant accounting policies (continued)

2.11 Leases

(i) Leases under which the Bank is the lessee

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

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Bank is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Bank's incremental borrowing rate is used.

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

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

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

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

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

(ii) Leases under which the Bank is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Bank has not entered into any finance leases.

Notes - Continued

2 Summary of significant accounting policies (continued)

2.12 Share capital

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

2.13 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.14 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

2.15 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Bank's accounting policies

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis and are based on experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements

Notes - Continued

3 Critical accounting estimates and judgements (continued)

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Several significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets

b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated

and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

4 Financial risk management

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board has established the Risk Management Committee, Assets and Liabilities (ALCO) and Credit Committees, which are responsible for developing and monitoring the Bank’s 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 Bank also has a fully-fledged risk management department that is responsible for day today monitoring of risks across the Bank.

Notes - Continued

4 Financial risk management (continued)

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

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The 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 suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank.

Credit risk arises mainly from corporate and retail loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to annual review. Limits on the level of credit risk by product and industry sector are regularly reviewed and approved by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off- balance sheet exposures.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Notes - Continued

4 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

<u>Maximum exposure to credit risk before collateral held</u>	2020 Shs'000	2019 Shs'000
Balances with Central Bank of Kenya (note 15)	586,016	328,213
Government securities at amortised cost (note 19)	10,580,940	7,939,075
Deposits and balances due from banking institutions (note 17)	3,341,549	3,325,204
Loans and advances to customers (note 18)	2,615,732	3,729,616
Other assets (note 23)	1,094,902	258,831
Credit risk exposures relating to off-balance sheet items (note 30):		
- Acceptances and letters of credit	-	-
- Guarantees	544,395	820,592
- Other Financial Instruments	1,503,195	2,170,663
	20,266,729	18,572,194

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
At 31 December 2020				
Gross Amount:				
Loans to individuals:	232,905	1,086	7,520	241,511
Loans to corporate entities	1,704,523	-	1,231,528	2,936,051
	1,937,428	1,086	1,239,048	3,177,562
Loss allowance:				
Loans to individuals	(5,673)	-	(2,571)	(8,244)
Loans to corporate entities	(1,219)	-	(552,368)	(553,587)
	(6,892)	-	(554,939)	(561,831)
Carrying value	1,930,536	1,086	684,109	2,615,731

Notes - Continued

4 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments (continued)

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
At 31 December 2019				
Gross Amount				
Loans to individuals:	117,835	38,400	19,003	175,238
Loans to corporate entities	2,417,458	772,582	515,053	3,705,093
	2,535,293	810,982	534,056	3,880,331
Loss allowance				
Loans to individuals:	(579)	(1,439)	(3,839)	(5,856)
Loans to corporate entities	(11,868)	(28,942)	(204,048)	(244,859)
Total allowance for credit losses	(12,447)	(30,380)	(207,887)	(250,715)
Carrying value	2,522,846	780,602	326,169	3,629,616

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

Loans and advances to customers and off balance sheet items, other than to major corporates, are secured by collateral in the form of charges over land and buildings and/ or plant and machinery or corporate guarantees. All other financial assets have no collateral held on them.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 65% of the loans and advances portfolio are neither past due nor impaired
- 100% of the investments in debt securities are government securities.

Notes - Continued

4 Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances

	2020	2019
	Shs'000	Shs'000
<u>Loans and advances are summarised as follows:</u>		
<u>Neither</u> past due nor impaired (Stage 1)	1,937,428	2,535,293
<u>Past</u> due but not impaired (Stage 2)	1,086	810,982
<u>Impaired</u> (Stage 3)	1,239,048	534,056
	<hr/>	<hr/>
<u>Gross</u>	3,177,562	3,880,331
Less provisions for loan Impairment	561,830	250,715
	<hr/>	<hr/>
<u>Net</u>	2,615,731	3,629,616
	<hr/> <hr/>	<hr/> <hr/>

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed based on the Central Bank of Kenya rating which the Bank has adopted:

	2020	2019
	Shs'000	Shs'000
Normal – neither past due nor impaired (Stage 1)	1,937,428	2,535,293
	<hr/>	<hr/>

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Past Due means any loan for which:

- principal or interest is due and unpaid for more than 30 days; or
- interest payments equal to more than 30 days interest have been refinanced, or rolled-over.

The gross amounts of loans and advances that were past due but not impaired were as follows:

	2020	2019
	Shs'000	Shs'000
Past due up to 90 days (Stage 2)	1,086	810,982
	<hr/>	<hr/>

Notes - Continued

4 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments (continued)

Loans and advances individually impaired (Stage 3)

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

	Loans		Overdrafts	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Individually assessed impaired loans and advances	828,598	336,023	410,450	90,146

The Bank assesses at each reporting date whether there is objective evidence that loans and advances are impaired. Objective evidence that loans and advances are impaired includes observable data that comes to the attention of the Bank about loss events such as significant financial difficulty of the borrower, breach of contract, bankruptcy or other financial re-organisation or local economic conditions that correlate with defaults on the assets in the Bank.

	Gross Exposure Shs'000	Impairment Allowance Shs'000	Carrying Amount Shs'000	FV of Collateral Shs'000
Loans and Advances	3,177,562	561,830	2,615,732	5,639,555
Off Balance sheet items	544,334	14,183	530,151	455,164
Financial Commitment	120,240	-	120,240	421,450
Cash and Cash equivalents	15,043,474	6,938	15,036,536	-
	18,885,610	582,951	18,302,659	6,516,169

Notes - Continued

4 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments (continued)

Write-offs

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains."

The Bank assesses at each reporting date whether there is objective evidence that loans and advances are impaired. Objective evidence that loans and advances are impaired includes observable data that comes to the attention of the Bank about loss events such as significant financial difficulty of the borrower, breach of contract, bankruptcy or other financial re-organisation or local economic conditions that correlate with defaults on the assets in the group.

(b) Concentration risk

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

Loans and advances	2020		2019	
	Shs' 000	%	Shs' 000	%
Energy and water	179,197	6%	235,610	6%
Trade	689,583	22%	664,003	17%
Transport and communications	267,861	8%	110,024	3%
Manufacturing	1,015,050	32%	930,489	24%
Real estate	72,991	2%	83,082	2%
Agriculture	36,044	1%	659,683	17%
Personal household	242,826	8%	178,506	5%
Construction	447,290	14%	458,419	12%
Other	226,719	7%	560,515	14%
	3,177,562	100%	3,880,331	100%

Customer deposits	2020		2019	
	Shs'000	%	Shs'000	%
Insurance companies	366,977	5%	291,467	4%
Private enterprise	6,350,659	81%	6,105,698	88%
Non-profit institutions & individuals	1,054,123	14%	535,768	8%
	7,771,759	100%	6,932,933	100%

Notes - Continued

4 Financial risk management (continued)

(c) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. By the very nature of operations, it is unusual for Banks to ever completely match assets and liabilities. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio and minimum liquidity ratios. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The treasury department monitors liquidity ratios on a daily basis and this is closely reviewed by the Assets and Liabilities Committee (ALCO).

The table below presents the undiscounted cash flows payable by the Bank under financial assets & liabilities by the remaining contractual maturities at the balance sheet date.

At 31 December 2020	Up to 1 Month Shs'000	1-6 Months Shs'000	6-12 Months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Total Shs'000
Assets						
Cash and Bank balances with Central Bank of Kenya	669,316	-	-	-	-	669,316
Government securities at amortised cost	578,942	493,845	8,899,853	165,900	442,399	10,580,940
Deposits and balances due from banking Institutions	1,683,772	-	1,657,777	-	-	3,341,549
Other assets	1,075,509	-	-	-	-	1,112,972
Loans and advances to customers	412,693	749,363	433,100	827,021	193,553	2,615,731
Total assets	4,420,232	1,243,208	11,008,800	992,921	655,345	18,320,508
Liabilities						
Customer deposits	4,061,469	2,795,664	914,627	-	-	7,771,760
Deposits and balances due to banking institutions	3,895,967	3,135,043	1,101,409	-	-	8,132,419
Lease Liability	-	-	-	-	26,583	26,583
Other liabilities	35,898	366,141	153,583	-	-	555,622
Total liabilities	7,993,334	6,296,848	2,169,619	992,921	2,283,374	18,743,175
Net liquidity gap	(3,573,102)	(5,053,640)	8,839,181	992,921	628,762	1,834,124

Notes - Continued

4 Financial risk management (continued)

(d) Liquidity risk (continued)

At 31 December 2019	Up to 1 Month Shs'000	1-6 Months Shs'000	6-12 Months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Total Shs'000
Assets						
Cash and Bank balances with Central Bank of Kenya	411,580	-	-	-	-	411,580
Government securities at amortised cost	-	1,692,087	5,651,129	161,080	429,547	7,933,843
Deposits and balances due from banking Institutions	2,109,484	-	1,215,721	-	-	3,325,205
Other assets	234,251	12,127	76,842	-	12,454	335,674
Loans and advances to customers	1,059,866	282,572	1,055,527	1,001,112	130,539	3,529,616
Total assets	3,815,181	1,986,786	7,999,219	1,162,192	572,540	15,535,918
Liabilities						
Customer deposits	3,782,944	2,786,875	363,114	-	-	6,932,933
Deposits and balances due to banking institutions	1,552,795	4,095,554	1,018,415	-	-	6,666,764
Lease Liability	-	-	-	-	57,442	57,442
Other liabilities	121,025	-	40,172	28,177	-	189,374
Total liabilities	5,456,764	6,882,429	1,421,701	28,177	57,442	13,846,513
Net liquidity gap	(1,641,583)	(4,895,643)	6,577,518	1,134,015	515,098	1,689,505

The matching and controlled mismatching of the maturities and interest rates of financial assets & liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of financial liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Notes - Continued

4 Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

(i) Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored regularly by management. In addition, the Central Bank of Kenya monitors the foreign currency position on a regular basis. The Bank had the following significant foreign currency positions (all amounts expressed in thousands of Kenya Shillings):

At 31 December 2020	USD	GBP	EUR	NGN	Other	Total
Assets						
Cash and balances with Central Bank of Kenya	82,353	9,301	36,282		541,382	669,316
Deposits and balances due from banking institutions	2,369,387	12,066	67,484	877,605	15,008	3,341,549
Government securities at amortised cost	-	-	-	8,562,332	2,018,608	10,580,940
Loans and advances to customers	1,634,880	1	-	-	980,850	2,615,731
Other assets	2,844	2	3	-	1,171,172	1,174,021
Total assets	4,089,463	21,369	103,769	9,439,937	4,727,019	18,381,558
Liabilities						
Customer deposits	2,714,686	20,455	70,693	129	4,965,797	7,771,759
Deposits and balances due to banking institutions	6,927,030	-	645,089		560,299	8,132,418
Other liabilities	81,482	-	-		474,193	555,675
Total liabilities	9,723,199	20,455	715,782	129	6,000,289	16,459,853
Net balance sheet position	(5,633,736)	915	(612,013)	9,439,808	(1,273,270)	1,921,705
Net off-balance sheet position	(237,884)	(14,902)	629,786	(1,880,196)		(1,503,195)
Overall net position	(5,395,852)	15,816	(1,241,799)	11,320,004	(1,273,270)	3,424,900

Notes - Continued

4 Financial risk management (continued)

Market risk (continued)

At 31 December 2019	USD	GBP	Euro	NGN	Other	Total
Assets						
Cash and balances with Central Bank of Kenya	76,455	3,894	3,656		327,576	411,581
Deposits and balances due from banking institutions	2,699,388	10,026	26,329	573,448	16,014	3,325,205
Government securities at amortised cost	-	-	-	5,816,036	2,117,808	7,933,844
Loans and advances to customers	1,965,946	10	17	-	1,563,644	3,529,617
Other assets	18,370	4	5	-	317,294	335,673
Total assets	4,760,159	13,934	30,007	6,389,484	4,342,336	15,535,920
Liabilities						
Customer deposits	1,324,090	8,401	30,591	65	5,569,785	6,932,933
Deposits and balances due to banking institutions	6,505,367	-	11,370	-	150,027	6,666,764
Other liabilities	12,719	-	-	-	176,655	189,374
Shareholders' funds	118,786	15	6,074	862,301	1,254,631	2,241,807
Total liabilities	7,960,963	8,416	48,035	862,366	7,151,098	16,030,877
Net balance sheet position	(3,200,803)	5,518	(18,028)	5,527,118	(2,808,762)	(494,960)
Net off-balance sheet position	(2,195,514)	-	28,424	-	3,573	-
Overall net position	(1,005,291)	5,517	(46,453)	5,527,118	(2,808,762)	(494,957)

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

Notes - Continued

4 Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2020, if the Shilling had strengthened/weakened by 1% against the major currencies (USD, GBP, Euro and NGN) with all other variables held constant, pre-tax profit for the year would have been lower/ higher by Shs 46,982,000 (2019: Shs 44,809,000) as illustrated below:

Impact on shilling strengthening per currency (Shs '000)

	USD	GBP	Euro	NGN	Total
At 31 December 2020 (1%)	(53,122)	158	(12,418)	113,200	46,982
At 31 December 2019 (1%)	(10,053)	55	(465)	55,271	44,809

(ii) Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

At 31 December 2020	Up to 1 Month	1-3 months	3-12 months	1-12 years	Non-interest bearing	Total
Cash and Bank balances with Central Bank of Kenya	-	-	-	-	669,316	669,316
Government securities at amortised cost	578,942	208,935	9,189,009	604,054	-	10,580,940
Deposits and balances due from banking Institutions	1,631,788	-	1,657,777	-	51,983	3,341,549
Other assets	-	-	-	-	1,112,972	1,112,972
Loans and advances to customers	440,712	244,972	863,735	1,066,313	-	2,615,731
Deferred income tax	-	-	-	-	297,521	297,521
Property and equipment	-	-	-	-	61,238	61,238
Right-of-use assets	-	-	-	-	24,554	24,554
Intangible assets	-	-	-	-	2,857	2,857
Total assets	2,651,442	453,906	11,710,521	1,670,367	2,220,441	18,706,678
Liabilities						
Customer deposits	1,617,945	2,040,906	1,669,384	-	2,443,524	7,771,759
Deposits and balances due to banking institutions	3,895,967	922,251	3,314,201	-	-	8,132,418
Lease Liability	-	-	-	-	26,583	26,583
Other liabilities	-	-	-	-	555,623	555,623
Total liabilities	5,513,912	2,963,157	4,983,585	-	3,025,730	16,486,384
Interest Sensitivity gap	(2,862,470)	(2,509,250)	6,726,936	1,670,367	(805,289)	2,220,294

Notes - Continued

4 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2019	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and Bank balances with Central Bank of Kenya	-	-	-	-	411,580	411,580
Government securities at amortised cost	-	919,612	6,423,604	590,628	-	7,933,844
Deposits and balances due from banking institutions	1,290,457	-	1,215,721	-	819,027	3,325,204
Other assets	-	-	-	-	335,673	335,673
Loans and advances to customers	1,260,735	79,265	1,258,833	1,030,783	-	3,629,616
Deferred income tax	-	-	-	-	313,998	313,998
Right-of-use assets	-	-	-	-	55,276	55,276
Property and equipment	-	-	-	-	78,298	78,298
Intangible assets	-	-	-	-	4,829	4,829
Total assets	2,551,192	998,877	8,898,158	1,621,411	2,018,681	16,088,319
Liabilities						
Customer deposits	1,416,175	2,253,602	896,388	-	2,366,769	6,932,933
Deposit and balances due to banking institutions	1,552,795	-	5,113,969	-	-	6,666,764
Lease Liability	-	-	-	-	57,442	57,442
Other liabilities	-	-	-	-	189,374	189,374
Total liabilities	2,968,970	2,253,602	6,010,357	-	2,613,585	13,846,514
Interest sensitivity gap	(417,778)	(1,254,725)	2,887,801	1,621,411	(594,904)	2,241,805

Notes - Continued

4 Financial risk management (continued)

(e) Fair values and effective interest rates of financial assets and liabilities

The effective interest rates by major currency for monetary financial instruments at 31 December 2020 and 2019 were in the following ranges:

	2020 Shs'000	2019 Shs'000
Assets		
Government securities at amortised cost 10.57% (2019:8.77%)	10,580,940	7,939,075
Deposits and balances due from banking institutions 4.24% (2019: 5.68%)	3,341,549	2,506,178
Other deposits and balances with banking institutions 0% (2019: 0%)	819,027	819,027
Loans and advances to customers 9.02% (2019:12.25%)	2,615,011	3,629,616
Liabilities		
Customer deposits 4.85% (2019: 6.58%)	7,771,759	6,932,933
Deposits and balances due to banking institutions 5.94% (2019:5.82%)	8,132,418	6,666,764

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the reporting date.

(f) Cash flow and fair value interest rate risk

Fixed interest rate financial instruments expose the Bank to fair value interest rate risk. Variable interest rate financial instruments expose the Bank to cashflow interest rate risk.

The Bank's fixed interest rate financial instruments are government securities, deposits with financial institutions and borrowings. The Bank's variable interest rate financial instruments are loans and advances. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The Bank regularly monitors financial assets and liabilities. At 31 December 2020, a 200 basis points increase in interest rates would have resulted in an increase in pre-tax profit of Shs 60,512,000 (2019: Shs 56,734,000 increase in pre-tax profit).

Notes - Continued

4 Financial risk management (continued)

(g) Fair value of financial instruments

(i) Financial instruments not measured at fair value

The following table summarizes the carrying amounts and fair values of those financial assets and abilities not presented on the Bank's statement of financial position at their fair value:

	Carrying value		Fair value	
	2020	2019	2020	2019
	Shs 000	Shs 000	Shs 000	Shs 000
Financial assets				
Deposits and balances due from banking institutions	3,341,549	3,325,204	3,341,549	3,325,204
Loans and advances to customers	2,615,732	3,629,616	2,615,732	3,629,616
Government securities at amortised cost	10,580,940	7,933,844	7,932,913	7,932,913

(a) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(b) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Notes - Continued

4 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

(ii) *Financial instruments not measured at fair value (continued)*

(d) *Off-balance sheet financial instruments*

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(ii) *Fair value hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1- Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The Bank had no assets carried at fair value at 31 December 2020 and 201.

(h) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

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

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

The Central Bank of Kenya requires each Bank to:

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

Notes - Continued

4 Financial risk management (continued)

(h) Capital management(continued)

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

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

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

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

	2020 Shs'000	2019 Shs'000
Tier 1 capital	2,256,791	2,241,806
Tier 1 + Tier 2 capital	<u>2,256,791</u>	<u>2,241,806</u>
Risk-weighted assets		
On-balance sheet	4,819,679	5,082,733
Off-balance sheet	845,034	2,334,781
Market and operational	<u>1,761,279</u>	<u>1,419,849</u>
Total risk-weighted assets	<u>7,425,992</u>	<u>8,837,363</u>
Basel ratio		
Tier 1 (CBK minimum – 10.5% [2019: 10.5%])	30.40%	25.40%
Tier 1 + Tier 2 (CBK minimum –14.5% [2019: 14.5%])	30.40%	25.40%

Notes - Continued

5 Interest income	2020	Restated
	Shs'000	2019
		Shs'000
Loans and advances:		
To banks	141,599	164,573
To customers	266,508	345,741
Government securities	1,121,843	929,749
Fees and commission on loans	13,072	84,128
	<u>1,543,023</u>	<u>1,524,191</u>
	<u><u>1,543,023</u></u>	<u><u>1,524,191</u></u>
6 Interest expense		
Deposits from banks	483,053	445,138
Deposits from customers	377,103	354,114
	<u>860,157</u>	<u>799,252</u>
	<u><u>860,157</u></u>	<u><u>799,252</u></u>
7 Fee and commission income		
Credit related fees and commissions	6,719	11,658
Other fees	45,453	41,238
	<u>52,172</u>	<u>52,896</u>
Fees and commission expenses	<u>(56,580)</u>	<u>(37,800)</u>
Net fee and commission income	<u>(4,408)</u>	<u>15,096</u>
	<u><u>(4,408)</u></u>	<u><u>15,096</u></u>
8 Net trading and revaluation income		
Foreign exchange trading income	247,323	76,704
Foreign currency revaluation gain	67,503	60,963
	<u>314,826</u>	<u>137,667</u>
	<u><u>314,826</u></u>	<u><u>137,667</u></u>
9 Operating income		
Profit on disposal of property and equipment	1,510	370
Other income	10,484	2,070
	<u>11,994</u>	<u>2,440</u>
	<u><u>11,994</u></u>	<u><u>2,440</u></u>

Notes - Continued

10 Credit impairment charge

	2020 Shs '000	2019 Shs '000
Loans and advances	311,116	190,104
Investment securities	4,245	110
Off balance sheet items	(16,531)	(19,158)
	<u>298,830</u>	<u>171,056</u>

11 Employee benefits

Wages and salaries	319,724	346,784
Social security costs	205	225
Defined contribution scheme	11,382	11,722
	<u>331,311</u>	<u>358,731</u>

12 Depreciation and amortization

Depreciation of property and equipment (Note 20)	28,163	30,523
Amortization of intangible assets (Note 21)	1,963	4,954
	<u>30,126</u>	<u>35,477</u>

13 Other operating expenses

Occupancy, furniture and equipment	16,759	17,048
Travel and entertainment	7,687	11,420
IT, communication and software costs	9,364	14,113
Consulting expenses	16,830	15,156
Reuters and swift expenses	16,256	7,218
Licenses and subscriptions	19,674	7,109
Security expenses	5,526	5,605
Auditor's remuneration	5,571	6,303
Marketing and public relations	21,201	28,445
Repairs & Maintenance	5,566	8,934
Motor vehicle costs	5,105	7,757
Bank charges	4,932	7,357
Deposit protection fund	8,076	6,409
Group recharges	37,296	40,172
Other expenses	74,333	13,191
	<u>254,176</u>	<u>196,237</u>

Notes - Continued

14 Income tax expense	2020 Shs'000	2019 Shs '000
Current income tax	-	-
Deferred income tax	16,478	38,022
Under provision of deferred tax in prior years	-	(32)
	<hr/>	<hr/>
Income tax expense	16,478	37,990
	<hr/>	<hr/>

The tax on the Bank's profit before income tax differs from the theoretical amount as follows:

	2020 Shs'000	2019 Shs'000
Profit before income tax	55,972	105,578
	<hr/>	<hr/>
Tax calculated at the tax rate of 25% (2019: 30%)	13,993	31,673
Effect of:		
Expenses not deductible	2,485	6,349
over provision of deferred tax in prior years	-	(32)
	<hr/>	<hr/>
Income tax expense	16,478	37,990
	<hr/>	<hr/>
15 Cash and balances with the Central Bank of Kenya		
Cash in hand	119,795	83,367
Balances with the Central Bank of Kenya other than mandatory reserve deposits	344,802	157,522
Mobile money balances	36,495	-
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 16)	501,092	240,889
Mandatory reserve deposits with the Central Bank of Kenya	204,719	170,691
	<hr/>	<hr/>
	705,811	411,580
	<hr/>	<hr/>

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash-in-hand and balances with the Central Bank of Kenya and mandatory reserve deposits are non-interest-bearing.

Notes - Continued

16 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include:

	2020 Shs'000	2019 Shs'000
Cash and balances with the Central Bank of Kenya (Note 15)	501,092	240,889
Deposits and balances due from banking institutions (Note 17)	3,341,549	3,325,204
	3,842,641	3,566,093

17 Deposits and balances due from banking institutions

Placements with other banks	2,250,988	2,506,178
Other deposits and balances other banks	1,090,561	819,027
	3,341,549	3,325,204
Included in cash and cash equivalents	3,341,549	3,325,204

18 Loans and advances to customers

Individual (retail customers):

- Overdrafts	9,626	362
- Term loans	231,886	175,552
	241,512	175,914

Corporate entities:

- Large corporate customers	2,935,863	3,698,463
- SMEs	187	5,953
	2,936,050	3,704,416

Gross loans and advances to customers	3,177,562	3,880,331
Less provisions for loan Impairment	(561,830)	(250,715)
	2,615,732	3,629,616
Net loans and advances to customers	2,615,732	3,629,616

Notes - Continued

18 Loans and advances to customers (continued)

i) Loans and advances to customers at amortized cost

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Gross Carrying amounts as at 1 January 2020	2,535,302	810,982	534,046	3,880,331
Changes in the gross carrying amount	(791,997)	(479,483)	47,436	(1,224,044)
Net movement of loans between stages	(327,470)	(330,413)	657,883	-
New financial assets originated or purchased	1,554,984	-	3,539	1,558,522
Financial assets that have been derecognised	(1,033,391)	-	(3,856)	(1,037,247)
Gross carrying amount as at 31 December 2020	1,937,428	1,086	1,239,048	3,177,562
Loans to individuals:	232,905	1,086	7,520	241,511
Loans to corporate entities	1,704,523	-	1,231,528	2,936,051
	1,937,428	1,086	1,239,048	3,177,562

iii) Loss allowance – Loans and advances to customers

At 1 January 2020	12,447	30,380	207,888	250,715
Net transfer of impairment between stages	-	(30,380)	30,380	-
New financial assets originated/purchased or derecognised	-	-	-	-
<i>Increase/ (decrease)/ in provisions</i>	(5,555)	-	316,671	311,116
At 31 December 2020	6,892	-	554,939	561,831
Loans to individuals:	(5,673)	-	(2,571)	(8,244)
Loans to corporate entities	(1,219)	-	(552,368)	(553,587)
Total loss allowance	(6,892)	-	(554,939)	(561,831)

19 Government securities at amortised cost

	2020 Shs'000	Restated 2019 Shs'000
Government securities at amortised cost	10,585,185	7,914,568
Loss allowance (Note 10)	(4,245)	(5,231)
	<u>10,580,940</u>	<u>7,909,337</u>

Notes - Continued

20 Property and equipment

	Leasehold improvements Shs'000	Computer equipment Shs'000	Motor vehicles Shs'000	Fixtures, fittings and equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2019						
Cost	160,328	48,019	78,930	98,354	16,483	402,114
At start of year	-	490	-	16,695	-	17,185
Additions	-	-	-	(6,408)	-	(6,408)
Transfers	-	546	-	13,611	(14,447)	(290)
At end of year	160,328	49,055	78,930	122,252	2,036	412,601
Depreciation						
At start of year	(159,504)	(36,408)	(48,271)	(65,030)	-	(309,214)
Depreciation charge	(184)	(3,562)	(11,650)	(15,127)	-	(30,523)
Adjustment	-	-	-	5,433	-	5,433
At end of year	(159,688)	(39,970)	(59,921)	(74,724)	-	(334,303)
Net book value	640	9,085	19,009	47,528	2,036	78,298
Year ended 31 December 2020						
Cost						
At start of year	160,328	49,055	78,930	122,252	2,036	412,601
Additions	-	1,095	-	11,340	-	12,435
Disposals	-	(7,450)	(4,187)	(2,498)	-	(14,135)
Transfers	-	273	-	1,763	(2,036)	-
At end of year	160,328	42,973	74,743	132,857	-	410,900
Depreciation						
At start of year	(159,688)	(39,970)	(59,921)	(74,724)	-	(334,303)
Depreciation charge	(245)	(3,339)	(8,393)	(16,187)	-	(28,164)
Disposals	-	7,442	4,187	1,175	-	12,804
At end of year	(159,933)	(35,867)	(64,127)	(89,736)	-	(349,663)
Net book value	395	7,106	10,616	43,121	-	61,238

Notes - Continued

21 Intangible assets	2020	2019
	Shs'000	Shs'000
Net book value		
At start of year	4,829	9,784
Disposal	(561)	-
Amortisation charge for the year	(1,963)	(4,954)
Amortization on disposal	552	-
	<hr/>	<hr/>
At end of year	2,857	4,829
	<hr/> <hr/>	<hr/> <hr/>
Cost	45,493	46,054
Accumulated amortisation	(42,636)	(41,225)
	<hr/>	<hr/>
Net book value	2,857	4,829
	<hr/> <hr/>	<hr/> <hr/>
22 Right of use Asset		
At start year	55,276	85,998
Depreciation	(30,722)	(30,722)
	<hr/>	<hr/>
At end of year	24,554	55,276
	<hr/> <hr/>	<hr/> <hr/>
23 Other assets		
Prepayments	18,070	76,842
Uncleared effects	-	6,015
Deposits recoverable	19,393	12,454
Receivable from group companies	-	12,127
Other	1,075,509	228,236
	<hr/>	<hr/>
	1,112,972	335,674
	<hr/> <hr/>	<hr/> <hr/>

Notes - Continued

24 Deferred income tax

	2020 Shs'000	2019 Shs'000
At start of year	313,998	351,988
Charge to the statement of comprehensive income (Note 14)	(16,478)	(38,022)
Under-provision in prior year	-	32
	<hr/>	<hr/>
At end of year	297,521	313,998
	<hr/> <hr/>	<hr/> <hr/>

The deferred income tax asset and deferred income tax expense in the statement of comprehensive income and equity are attributable to the following items:

	1 January 2020 Shs'000	Charged/ (Credited) to SCI Shs'000	31 December 2020 Shs'000
Deferred income tax assets			
Provisions	115,984	84,757	200,741
Unrealised exchange losses	(18,289)	(5,790)	(24,079)
Lease liability	17,233	(9,258)	7,975
Tax losses	206,720	(97,841)	108,879
Deferred income tax liability	-	-	-
PPE - historical cost basis	8,933	2,437	11,370
Right of use	(16,583)	9,217	(7,366)
	<hr/>	<hr/>	<hr/>
Deferred income tax asset	313,998	(16,478)	297,520
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	1 January 2019 Shs'000	Charged/ (Credited) to Equity Shs'000	Charged/ (Credited) to SCI Shs'000	31 December 2019 Shs'000
Deferred income tax assets				
Provisions	38,570	(17,503)	94,917	115,984
Unrealised exchange losses	235	-	(18,524)	(18,289)
Lease liability	-	-	17,233	17,233
Tax losses	306,089	-	(99,369)	206,720
Deferred income tax liability				-
PPE - historical cost basis	7,094	-	1,839	8,933
Right of use	-	-	(16,583)	(16,583)
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred income tax asset	351,988	(17,503)	(20,487)	313,998
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes - Continued

25 Deposits and balances due to banking institutions	2020 Shs'000	2019 Shs'000
Deposits from banks	8,132,418	6,666,764
26 Deposits from customers		
Current/settlement accounts	2,236,974	2,284,998
Savings and transaction accounts	78,611	81,770
Fixed deposit accounts	5,456,174	4,566,164
	<u>7,771,759</u>	<u>6,932,933</u>
Included in the fixed deposit balances above is cash collateral of Shs 204,000,000 (2019: Shs 593,621,918).		
27 Lease Liability	2020 Shs'000	2019 Shs'000
At start of year	57,442	85,998
Finance cost	4,141	6,847
Lease payment	(35,000)	(35,403)
	<u>26,583</u>	<u>57,442</u>
28 Other liabilities		
Statutory deduction	13,813	15,711
Banker cheques	3,652	3,589
Loss allowance on off balance sheet items	16,877	47,334
Other	521,279	127,721
	<u>555,621</u>	<u>194,355</u>

Notes - Continued

29 Share capital	Number of shares	Ordinary shares Shs'000	Share premium Shs'000
Year ended 31 December 2019			
At start of year	1,261,713	1,261,713	2,384,754
At end of year	1,261,713	1,261,713	2,384,754
Year ended December 2020			
At start of year	1,261,713	1,261,713	2,384,754
At end of year	1,261,713	1,261,713	2,384,754

The total authorised, issued and fully paid number of ordinary shares is 1,261,713 with a par value of Shs 1,000 per share. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

30 Related parties

The immediate and ultimate parent company is United Bank for Africa Plc, incorporated in Nigeria. The Bank is related to other companies which are related through common shareholding or common directorships.

Advances to customers which include loans to directors, loans to companies connected to directors or their families and loans to employees are as follows:

i) Loans and advances to related parties

	2020 Shs'000	2019 Shs'000
At start of year	58,016	167,401
Advances during the year	18,426	22,193
Advances to former related parties	(0)	(77,703)
Repayments during the year	(17,862)	(53,875)
At end of year	58,580	58,016
Interest income earned on advances to directors or entities controlled by directors	-	-

Notes - Continued

30 Related parties

ii) Deposits from related parties

	2020 Shs'000	2019 Shs'000
Deposits from directors or entities controlled by directors	33,237	11,675
Interest expense paid on deposits by directors or entities connected to directors	-	-

iii) Key management compensation

Salaries and other benefits	136,520	136,490
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iv) Directors' remuneration

Fees	17,294	10,900
Other emoluments	-	-
	17,294	10,900

v) Balances with group companies

Due from:

UBA Plc, Lagos	980,105	592,909
UBA New York	2,387	2,217
UBA Uganda	82	5
UBA Tanzania	6,480	3,080
UBA Cameroon	3,072	960
UBA Burkina Faso	1,171	1,570
UBA Mali	3,081	1,017
UBA Capital Europe	2,183,800	1,018,647
UBA Mozambique	-	243,928
UBA Zambia	-	965,395
UBA DRC	-	432,625

	3,180,178	3,262,353
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Interest income earned on the above

	21,838	7,448
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Notes - Continued

30 Related parties (continued)

v) Balances with group companies (continued)

	2020 Shs'000	2019 Shs'000
Due to:		
UBA Plc, Lagos	1,091,900	5,113,969
UBA New York	545,950	-
UBA Uganda	327,570	274,418
UBA Tanzania	109,190	315,655
UBA DRC	1,255,685	406,839
UBA Côte d'Ivoire	873,520	-
UBA Sierra Leone	272,975	-
UBA Zambia	218,380	-
Other group companies	<u>4,695,170</u>	<u>6,110,881</u>
Interest expense incurred on the above	<u>28,420</u>	<u>46,187</u>

vi) Value of services provided

Group companies provide support services from time to time for which they charge at costs incurred at the country of origin. The value of the services provided are debited to the income statement and are included in total expenditure of the Bank.

31 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the balance sheet.

Contingent liabilities	2020 Shs'000	2019 Shs'000
Guarantee and performance bonds	544,334	820,592
Other financial instruments		
Outright Currency	558,100	3,173,820
Spot Currency	2,611,770	224,064
Swap Currency	<u>(1,666,675)</u>	<u>(1,226,940)</u>
	<u>2,047,529</u>	<u>2,991,255</u>

Notes - Continued

31 Off balance sheet financial instruments, contingent liabilities and commitments (continued)

Nature of contingent liabilities

Guarantees are generally written by a Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. Other financial instruments are under the management of the treasury department. They involve various forms of agreements to deal FX at future dates with counterparties.

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

32 Cash generated from operations

	2020 Shs'000	Restated 2019 Shs'000
Profit before income tax	55,972	81,072
Adjustments for:		
Interest received	(898,055)	(202,138)
Interest paid	637,978	129,340
Depreciation of property and equipment (Note 20)	28,163	30,523
Depreciation of right of use asset (Note 22)	30,722	-
Amortisation of intangible assets (Note 21)	1,963	4,954
Gain on disposal of property and equipment	188	(370)
Finance cost	4,141	(6,847)
Impairment loss recognised	298,830	171,056
Recoveries from loans previously written off	28	2,033
	<hr/>	<hr/>
Profit before working capital changes	159,930	209,623
Movements in:		
Mandatory reserve deposits with the Central Bank of Kenya (Note 16)	(34,028)	(10,935)
Government securities	(2,671,603)	(40,968)
Loans and advances to customers	1,013,884	(282,039)
Customer deposits	838,826	893,883
Other assets	(777,298)	(99,508)
Deposits and balances due to banking institutions	1,465,654	(257,731)
Other liabilities	366,247	(4,981)
	<hr/>	<hr/>
	201,682	197,721
	<hr/>	<hr/>
Cash generated from operations	<u>361,612</u>	<u>407,344</u>

Notes - Continued

33 Prior period adjustment

In 2020, management discovered a computational error of Shs 24,507,000 in calculating interest income on investment in government securities. The error resulted in an overstatement of income recognised for the 2019 and a corresponding overstatement of government securities.

The financial statements have been restated to correct the error. Profit for the year ended 31 December 2019 was reduced by Shs 24,507,000 from Shs 67,588,000 previously reported to Shs 43,082,000.