Bank of Baroda (Kenya) Ltd.

Regulated by Central Bank of Kenya

ANNUAL REPORT &
FINANCIAL STATEMENTS 2021

CHANELLING GROWTH THROUGH *innovation*

ABOUT THE BANK

Bank of Baroda (Kenya) Ltd. started its journey on 14th December 1953. The first Branch of the Bank was opened at Mombasa in Kenya. Today Bank has a total of -14- branches spreading across Kenya. The Bank's vision is to be the most respected and prefered Bank, striving to enhance stakeholders value with concern, care and competence. The Bank is offering all types of Banking services for its customers and for the past 69 years has been contributing towards socio economic up-liftment of the country.

The Bank has been able to place itself as a dominant player in the Kenyan Banking Industry. It is committed to deliver in all vital sectors of the economy through lending to various sectors viz. Manufacturing, Trading, Agriculture etc.

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GENERAL INFORMATION

Principal shareholder
Bank of Baroda, India - 86.70%

Country of Incorporation and domicile
Kenya

Registered office
Baroda House, 90, Muthithi Road
P.O. Box 30033-00100, Nairobi, Kenya
Telephone: (020) 2248402, 2248412
Website: www.bankofbarodakenya.co.ke
E-Mail: ho.kenya@bankofbaroda.com

Principal correspondent banks
Bank of Baroda - Mumbai, India
Bank of Baroda - New York, U.S.A.
Bank of Baroda - London, U.K.
Bank of Baroda - Brussels, Belgium
Bank of Baroda - Sydney, Australia
Bank of India - Tokyo, Japan
Bank of Montreal - Toronto, Canada
Union Bank of Switzerland - Zurich, Switzerland

Principal officers

Mr. Vinay Kumar Rathi	Managing Director
Mr. Ravi Kant Pathak	Head - Operations & Executive Director
Mr. Akshay Goyal	Head - Risk
Mr. Isaiah Omae	Head - Compliance
Mr. Andrew W. Lukuyani	Head - Credit
Mr. Winston Sore	Head - Internal Audit
Mr. Bhavik Trivedi	Head - Treasury
Ms. Maria Gorett Makokha	Head - Treasury (Back Office)
Mr. Patrick Sila	Head - Finance
Mr. Lusiji Patrick Kombe	Head - Information Technology
Mr. Avishek Banerjee	Incharge - Marketing
Mr. Dhirajlal N. Shah	Manager - Marketing
Mr. Mukesh Kumar	Branch Head - Digo Rd Branch, Mombasa
Mr. Jitendra Kumar	Branch Head - Thika Branch
Mr. Suneel Karanam	Branch Head - Kisumu Branch
Mr. Anil Kumar	Branch Head - Sarit Centre Branch
Mr. Vivek Kumar Srivastava	Branch Head -Industrial Area, Nairobi
Mr. V. Murli Krishna	Branch Head - Eldoret Branch
Mr. Jitendra Sahoo	Branch Head - Nakuru branch
Mr. Vijayakumar B	Branch Head - Nairobi Main Branch, Koinange Street
Mr. Denis Onyoro	Branch Head - Kakamega Branch
Mr. Punit Kumar	Branch Head - Nyali Branch, Mombasa
Mr. Richard Ngahu	Branch Head - Meru Branch
Mr. Amardeep Singh	Branch Head - Diamond Plaza, Nairobi
Mr. Prasanta Kumar Padhi	Branch Head - Mombasa Road Branch, Nairobi
Mr. Chandan Kumar	Branch Head - Muthithi Road Branch, Nairobi

Independent auditor
Grant Thornton
Certified Public Accountants (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986-00100
Nairobi

Legal advisors
Hamilton Harrison & Mathews Advocates
A.B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates
Gathaiya & Associates
L.G. Menezes

Principal valuers
Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited
Chrisca Real Estates

Company secretary
Africa Registrars
Certified Public Secretaries (K)
Kenya-Re Towers, Upperhill
P.O. Box 1243-00100
Nairobi

HEAD OFFICE, NAIROBI

Baroda House, 90, Muthithi Road,
P.O.Box 30033-00100 ,Nairobi, Kenya

Telephone : +254 (020) 224 8402/2248412

Website: www.bankofbarodakenya.co.ke
E-mail: ho.kenya@bankofbaroda.com

BRANCH NETWORK

Digo Road Branch, Mombasa
P. O. Box 90260-80100
Plot No.XXV/61, Kizingo, Mombasa
Telephone : (041) 2224507/8,2226211
E-mail: digoro@bankofbaroda.com

Thika Branch, Thika
Kenyatta Avenue,
P.O. Box 794-01000, Thika
Telephone : +254 (067) 222379/2230048
E-mail: thika@bankofbaroda.com

Kisumu Branch, Kisumu
Central Square,
P.O. Box: 966-40100, Kisumu
Telephone : (057) 2021768/74, 2020303
E-mail: kisumu@bankofbaroda.com

Eldoret Branch, Eldoret
Chardor Patel Plaza, Moi Street,
P.O. Box 1517 -30100, Eldoret
Telephone : +254 (053) 2063341
E-mail: eldoret@bankofbaroda.com

Mombasa Road Branch, Nairobi
Somak House (Ground Floor), Near Airtel Bldg,
P.O. Box No. 18948 – 00500
Mombasa Road, Nairobi
Telephone : +254 (020) 6829118/6829119
E-mail: mombasaroad@bankofbaroda.com

Nairobi Main Branch, Nairobi,
Baroda House, 29 Koinange Street,
P.O.Box 30033-00100, Nairobi
Telephone : +254 (20) 2220575/2226416
E-mail: nairobi@bankofbaroda.com

Industrial Area Branch, Nairobi
Industrial Area, Enterprise Road,
P.O. Box 18269-00500 , Nairobi
Telephone : +254 (20) 6555971/6555945
E-mail: indust.nairobi@bankofbaroda.com

Sarit Center Branch, Nairobi
Sarit Centre, Lower Ground Floor,
P.O. Box 886-00606,Nairobi
Telephone : +254 (20) 3752590/91
E-mail: sarit@bankofbaroda.com

Diamond Plaza Branch, Nairobi
First Floor, Diamond Plaza, Masari Road,
P.O. Box: 13709-00800, Nairobi
Telephone : +254 (020) 3742257/3742263
E-mail: dp.nairobi@bankofbaroda.com

Muthithi Road Branch
First Floor, Baroda House
P.O. Box 30033, 00100
NAIROBI
Telephone: (020)2248402/2248412
E-mail: muthithi@bankofbaroda.com

Kakamega Branch, Kakamega
Kenyatta Avenue,
P.O. Box 2873, Kakamega
Telephone : +254 (056) 2111777
E-mail: kakamega@bankofbaroda.com

Meru Branch, Meru
Brown Rock Building, Njuri Ncheke Street,
P.O. Box No. 2762-60200,Meru
Telephone : +254 (020) 2341342/056-3130623
E-mail: meru@bankofbaroda.com

Nakuru Branch, Nakuru
Vikers House, Kenyatta Avenue,
P.O. Box 12408-20100, Nakuru
Telephone : +254 (051) 2211718/9
E-mail: nakuru@bankofbaroda.com

Nyali Branch, Mombasa
Ground Floor, Texas Tower, Nyali Road ,
P.O. Box: 95450-80106,Mombasa
Telephone : +254 (041) 4471103/4471104
E-mail: nyali@bankofbaroda.com

BANK AT A GLANCE

As at 31st December 2021

TOTAL DEPOSITS
Kes. 149.372 Billion

TOTAL ADVANCES
Kes. 58.165 Billion

TOTAL BUSINESS
Kes. 207.573 Billion

NET PROFIT
Kes. 5.2 Billion

CAPITAL ADEQUECY
29.98%

TOTAL ASSETS
Kes. 180.381 Billion

SHARE HOLDERS FUND
Kes. 28.832 Billion

BANK VALUE PER SHARE
Kes. 291.32

BUSINESS PER EMPLOYEE
Kes. 0.844 Billion

COMPANY INFORMATION

Board Committees

The board committee as at the date of this report comprise:

Board Audit Committee

Composition:
Three directors (Non-executive)

Main function:
Strengthening the control environment, financial reporting and auditing function.

Frequency of meetings per annum (minimum):
Quarterly

Chairperson:
Mr. Stephen Lugalia

Members:
Dr. Winifred N. Karugu
Mr. Ramesh C. Mehta

Board Credit Committee

Composition:
Two directors (Executive)
Three directors (Non-executive)

Main function:
Appraisal and approval of credit applications and reviewing credit portfolio.

Frequency of meetings per annum (minimum):
Quarterly

Chairperson:
Mr. Ramesh C. Mehta

Members:
Dr. Winifred N. Karugu
Mr. Vinay Kumar Rathi
Mr. Ravi Kant Pathak
Mr. Stephen Lugalia

Board Risk Management Committee

Composition:
One director (Executive)
Three directors (Non-executive)

Main function:
Ensuring quality, integrity and reliability of the Bank's risk management function.

Frequency of meetings per annum (minimum):
Quarterly

Chairperson:
Dr. Winifred N Karugu

Members:
Mr. Vinay Kumar Rathi
Mr. Ramesh C. Mehta
Mr. Stephen Lugalia

CHAIRMAN'S REPORT

Dear Stakeholders,

I am pleased to present the Annual Report of your Bank for the financial year ended 31st December, 2021. The report is aimed to bring out the steps taken to maximize customer satisfaction and enhance stakeholders' value with robust performance for all round growth of the Bank.

Before moving further, I would like to inform you about the overall economic scenario and actions taken by the Bank to enrich its values i.e. Trust, Transparency and Togetherness.

Economic And Banking Overview:

For almost 02 years, the entire world has been facing one of the toughest challenges and the pandemic has touched not only individuals but also institutions, businesses and governments across the globe. Economies worldwide have been adversely impacted and the after-effects are still visible. However, there are indications of gradual recovery in major industries in Kenya i.e. tourism, hospitality, transport and entertainment etc., which had been severely impacted. The Credit Rating of the country as per FITCH was B+ as on 22.03.2022 with the outlook as negative. GDP growth is estimated to be between 4.30% to 4.70%. Besides, the Russia-Ukraine crisis and rising crude oil prices are likely to push inflation from 6.00% to 6.50%. Considering the adversities involved, Monetary Policy Committee is likely to maintain its accommodative stance to support the micro economic situation.

The year 2022 is the last year of the third medium-term plan (2018 -22), which was targeted to achieve the overall vision 2030 under "Big Four" i.e. (1) Food Security, (2) Affordable Housing, (3) Manufacturing and (4) Universal Health Coverage, for higher economic growth, faster job creation and reduction in the cost of living. The focus of the government on the above stated critical economic factors would certainly improve the economic situation. However, other factors that may have an adverse impact would be the increase in the Debt to GDP ratio which may result in the depreciation of KSH.

As predicted, the Banking Industry would also face challenges in terms of deterioration in credit quality and would need to find innovative and technology driven initiatives to provide upgraded services to customers. The norms would be tightened further by the regulators and banks would be required to focus more on Risk Based Approach towards the loan Book. There would also be a necessity for the Banking industry to improve upon Operational Efficiency to meet the increasing needs of all the stakeholders. All in all, it would be a tight rope walk for the Banks to meet the customers' growing expectations while maintaining satisfactory growth with quality portfolio. Let me assure you all that your Bank is well equipped for the same.

Performance Of The Bank & Major Achievements During The Year

Your Bank has taken various initiatives to meet the challenges and the management of the Bank has been proactive to envisage any volatility for protecting the interest of stakeholders and also to keep the momentum going. It has always been the endeavor of the Bank to scale new heights in terms of business growth and the year 2021 has not been an exception. At the end of the year, total business stood at Ksh 207.537 Bn which was 11.48% above the 2020 figures. The growth in deposits and advances was 10.65% and 13.71% respectively. Another highlight has been the reduction in Non-Performing Loans. The Gross NPLs came down from 6.342 Bn to 6.088 Bn and in percentage terms, from 12.40% to 10.45% of the Advances portfolio. The Bank has taken stringent measures for credit monitoring and has adopted effective recovery techniques which are likely to generate better results in future as well. In terms of profitability, your Bank's Gross Profit went up from Ksh 6.591 Bn to Ksh 7.574 Bn and Net Profit improved from Ksh 4.523 Bn to Ksh 5.199 Bn. Your Bank has been maintaining a strong liquidity position and has a healthy NIM, which is likely to be continued in future as well.

Your Bank has introduced Trade Based Money Laundering Tool (TBML) in July 21, which is an Anti- Money Laundering Screening tool from internationally reputed agency that screens and alerts Bank on various parameters related to trade transactions of ports, vessels, dual-use goods etc. This would be useful in better monitoring of transactions to meet the regulatory guidelines.

Your Bank is the First Bank in Kenya that launched Risk Based Pricing system for its loans. Bank has also launched Base Rate module for its pricing. Your Bank is now part of the Compliance Committee of Kenya Banker's Association for making suggestions or recommendations to review and update the framework of prudential guidelines issued by Central Bank of Kenya. This is a significant acknowledgement that your Bank is adopting appropriate banking practices and methodologies to meet the stakeholders' needs and also to maintain high standards of compliance.

Your Bank has recently opened a new branch at Muthithi Road, Nairobi which was inaugurated by H.E Dr. Virender Paul, High Commissioner of India. With this, now your Bank has a network of 14 branches in Kenya including 6 branches in Nairobi and 8 branches upcountry.

The Bank is also enhancing its operational efficiencies. Recently, a Document Management System (DMS) has been introduced which enables management of all the records digitally for better efficiency in recording and retrieval.

The Bank has also started Mpesa paybill on Mobile Banking app i.e. Baroda Mobi. Now, its customers can pay their utility bill directly without loading money on wallet. The Bank has also launched travel and pre-paid cards in local currency as well as in USD.

Your Bank has launched 4 new products during the year viz. Baroda Kenya Salary Account, Baroda Traders Loan, Baroda Education Loan and Personal Accident Insurance against high value fixed deposit. These will not only add to the variety of products but also in meeting the diversified needs of the customers. At this critical juncture, it is important for the banks to have many customer-centric products including digital products and your Bank is continuously engaged in making optimum use of technology to meet the needs and expectations of the customers.

Way Forward

The Bank is focused to build resilient capabilities to embrace the emerging changes. Bank has a strong leadership and the Board of Directors is committed to lead the Bank to newer heights in terms of all the business parameters. The Bank will remain technology savvy and will continue to add new features to its business module so as to provide a wide range of services and products that are not only user friendly but also very safe.

The Phase II of Mobile Banking and Internet Banking is under progress which will be a landmark in service delivery efforts of the Bank. Your Bank will continue to make efforts for digitization of business processes and delivery systems for better customer experiences.

The Bank is also striving to enter into various business tie-ups for the growth of its retail business, along with improvement in its brand image and visibility. With eminent professionals on the Board, your Bank will ensure to keep all the stakeholders comfortable through effective and efficient management and high standards of corporate governance while carrying out its social responsibilities without compromising on the efforts to minimize the environment risks. Your Bank will constantly strive to achieve the business goals which are beneficial to all stakeholders.

Acknowledgement

I take this opportunity to thank all the stakeholders of the Bank including Government of Kenya, Central Bank of Kenya and other regulatory authorities for their wholehearted support throughout the year, which has helped in all round growth of the bank. Needless to say, customers remain the focal point of all the actions of the bank and we are thankful for their patronage.

I also acknowledge and appreciate the efforts of the Managing Director, my fellow Directors and Bank's staff for their valuable contribution in making the Bank a value based organization. I am sure that the Bank will continue to get the same support in future and would also like to assure that the Bank will continue to take steps to improve its growth trajectory and further enhance its customer centricity.

With warm regards,

Yours sincerely,

Vikramaditya Singh Khichi
Chairman
Bank of Baroda (Kenya) Ltd

BOARD OF DIRECTORS

Mr Vikramaditya Singh Khichi Chairman

Appointment Date: September 2, 2019 | **Age:** 59 | **Nationality:** Indian

Qualifications:
B. Sc; MBA -Finance & Marketing, CAIIB; Associate of Insurance Institute of India

Other Directorships:
Bank of Baroda (India) -Executive Director
Baroda Asset Management (India) Limited
BOB Financial Solutions Limited
India First Life Insurance Company Limited
Indo Zambia Bank Limited

Percentage of individual share holding in the bank: None

Mr. Dr. Krishnama Chary Mudumba Director Non-Executive

Appointment Date: July 4, 2019 | **Age:** 60 | **Nationality:** Indian

Qualifications:
B. Com; M.Com; LLB, Phd (Banking & Finance), MBA -Marketing, CAIIB

Other Directorships:
Bank of Baroda (Botswana) Limited

Percentage of individual share holding in the bank: None

***Resigned on 31/07/2021**

Mr. Vinay Kumar Rathi Managing Director

Appointment Date: February 3, 2022 | **Age:** 48 | **Nationality:** Indian

Qualifications:
CAIIB, B. Com, PGDBFM

Other Directorships:
None

Percentage of individual share holding in the bank: None

Mr. Saravanakumar A. Managing Director*

Appointment Date: December 8, 2017 | **Age:** 51 | **Nationality:** Indian

Qualifications:
B. E (Agr), DCO, MBA -Banking & Finance, CAIIB, PGOFM, DTIRM

Other Directorships:
None

Percentage of individual share holding in the bank: 1 share held in trust

***Resigned on 04/03/2022**

Dr. Winifred N Karugu Director Non-Executive

Appointment Date: June 3, 2016 | **Age:** 65 | **Nationality:** Kenyan

Qualifications:
Phd. Economics, Msc. Agriculture (Econ), Bsc. Agriculture

Other Directorships:
Kargua Construction
Mirie Cousins Limited
Erian Heights Limited

Percentage of individual share holding in the bank: None

Mr. Ramesh Chunilal Mehta Director Non-Executive

Appointment Date: March 28, 2017 | **Age:** 74 | **Nationality:** Kenyan

Qualifications:
BBM

Other Directorships:
Western Emporium (1975) Co. Limited

Percentage of individual share holding in the bank: 882400 held in joint names

Mr. Ravi Kant Pathak Director Executive

Appointment Date: October 6, 2020 | **Age:** 45 | **Nationality:** Indian

Qualifications:
MSc. Maths, PGDCA, MCA, CAIIB, Associate member of IIBF

Other Directorships:
None

Percentage of individual share holding in the bank: 2 shares held in trust

Mr. Stephen Lugalia Director Non-Executive

Appointment Date: March 15, 2021 | **Age:** 64 | **Nationality:** Kenyan

Qualifications:
B. Com (Accounting), FCPAK, CPSK, Certified Trainer in Corporate Governance
Certified Board Evaluator

Other Directorships:
Laser Insurance Brokers Limited
Jumbolink communications Limited
FGB Solutions Limited

Percentage of individual share holding in the bank: None

CORPORATE GOVERNANCE

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

1. Respective Responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditor. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

2. Board of directors

The composition of the Board is set out on page 8-9. The Board is chaired by Director (Non-Executive) and comprises of the Managing Director, one other Director (Executive) and Four Directors (Non-Executive).

All Directors (Non-Executive) are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 12. The Directors are responsible for the development of internal controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, the Board meetings were held on the following dates:
- March 19, 2021
- June 18, 2021
- September 17, 2021
- December 21, 2021

The attendance of individual directors is as follows:

Name of director	Period	Meetings held during their tenure	Meetings attended
Mr. Vikramaditya Singh Khichi	01 January 2021 to 31 December 2021	4	4
Mr. Dr. Krishnama Chary Mudumba	01 January 2021 to 31 July 2021	2	2
Mr. Saravanakumar A.	01 January 2021 to 31 December 2021	4	4
Mr. Stephen Lugalia	15 March 2021 to 31 December 2021	4	4
Dr. Winifred N. Karugu	01 January 2021 to 31 December 2021	4	4
Mr. Ramesh Chunilal Mehta	01 January 2021 to 31 December 2021	4	4
Mr. Ravi Kant Pathak	01 January 2021 to 31 December 2021	4	4

The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committee reporting to the board. The composition of the sub-committee is set out on page 5.

3. Board evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good Corporate Governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2021. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge. The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Board chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2021 under his Chairmanship. The Chairman was effective during the year.

(c) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director observes performance of fellow Directors.

4. Board committees

Board Audit Committee

The committee comprises three Directors (Non-Executive). The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.

- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya. - Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

Board Credit Committee

The committee is chaired by a Director (Non-Executive) and comprises of the two Executive Directors, two Non-Executive Directors and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

Board Risk Management Committee

The committee, chaired by a Director (Non - Executive) and comprising Managing Director and two other Directors (Non-Executive), meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

5. Management committees

Asset and Liability Committee (ALCO)

The committee, chaired by the Managing Director, comprising Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including peratíonal, liquidity, maturity, interest rate and exchange rate risks.

Executive Committee (EC)

The committee, chaired by Director (Executive) and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Business Continuity Planning Committee (BCPC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to identify business function groups, Business Impact Analysis (BIA), Prioritization, fixation of Recovery Time Objectives (RTO) / Recovery Point Objective (RPO) for the function groups and identifcation of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realised.

Information & Communication Technology Committee

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to oversee and report the effectiveness of strategic Information & Communication Technology (ICT) planning, the ICT Budget and actual expenditure, and the overall ICT perfromacne to the Board of Directors and Senior Management periodically.

Recovery Committee (RC)

The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on monthly basis to look into advances accounts where recovery proceedings have been initiated by the Bank. The Committee gives direction on the steps taken for speedy and effective recovery in non performing loans accounts. Potential non performing loans accounts are also discussed in the committee.

Operational Risk Management Committee (ORMC)

The Committee is chaired by the Managing Director and various departmental heads meeting on a quarterly basis with the responsibility of reviewing and approving new bank products and services. It also ensures review of new policies renewal of existing policies as per each policy sunset clause. Output from the ORMC is shared with the Board Risk Management Committee.

Management Compliance Committee (MCC)

The Committee chaired by the Managing Director and various departmental heads meeting on a quarterly basis and tasked with the responsibility of discussing the state of the Bank's compliance with all regulatory and internal policy requirements ensuring the Bank is not in contravention with any statutory requirements nor does it violate its own internal policies. Findings in the committee are shared with the Board Risk Management Committee.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

Relationship with Shareholders

The Bank is a private limited liability company with the details of the main shareholder set out on the general information page. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the local newspapers.

Mr Vinay Kumar Rathi
Managing Director

DIRECTORS' REPORT

The directors submit their report together with the audited annual report and financial statements for the year ended December 31, 2021.

1. Principal activities

The bank is licensed under the Banking Act and provides banking, financial and related services.

There have been no material changes to the nature of the bank's business from the prior year.

2. Economic review and activities

Banks will be able to trade government securities with each other through horizontal repos from June year 2022 when the Central Securities Depository (CSD) becomes operational. The World Bank has revealed that the Central Bank of Kenya (CBK) has put out timelines to finalize testing the system in May 2022 and roll out the programme by June year 2022. The CSD is being modernized to assist banks to trade with each other by exchanging collateral of their treasuries holdings, thus allowing smaller banks to get favorable interbank rates. Currently, small lenders get expensive interbank rate when borrowing from their larger peers because they are considered risky and do not offer collateral for their overnight loans.

The Central Bank of Kenya (CBK) issued Guidance on Climate-Related Risk Management to the banking sector, on October 15, 2021. The guidance is aimed at enabling banks to integrate climate-related risks into their governance, strategy, risk management and disclosure frameworks. Climate change poses three broad risks to banks namely; physical risk, transition risk and liability risk.

3. Performance appraisal

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year.

The Bank recorded a profit after tax for the year ended December 31, 2021 of Ksh 5,199,539. This represented an increase of 15% from the profit after tax of the prior year of Ksh 4,522,524.

Cashflow from operating activities increased by 44% from Ksh 16,187,855 in the prior year to Ksh 23,351,038 for the year ended December 31, 2021.

Gross deposits increased by Kshs 14.372 Billion to reach Kshs 149.372 Billion as at December 31, 20121 compared to Kshs 135.000 Billion as at December 2021.

Gross advances increased by Kshs 7.014 Billion to close at Kshs 58.165 Billion as at December 31, 2021 compared to Kshs 51.151 Billion as at December 31, 2021.

Investment in Government Securities closed at Kshs 112.546 Billion as at December 31, 2021 compared to Kshs 99.921 Billion as at December 31, 2021.

4. Future outlook

Owing to the impeding general elections, the financial market conditions may continue to be volatile and hence underpin demand for credit. However, to ensure a healthy growth in the loan book the bank embarking on a strategy of mobilizing intake for retail and MSMEs advances so as to grow the loan book, dilute concentration of single / group exposures as well as building a long-term sustainable customers relationship. The bank also intends to;

i) Aggressively publicize our newly introduced deposit products.
ii) Attract more local customers and accounts to Bank of Baroda fraternity.
iii) Canvass more Low-Cost Deposits (CASA) in order to broaden the deposit base and improve deposit mix.

5. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

6. Dividends

The directors propose a final dividend of K Sh 30.00 per share (2020: K Sh 20.00 per share) amounting to K Sh 2.969 Billion (2020: K Sh 1.979 Billion).

7. Directors

The directors of the bank during the year and to the date of this report are as follows:

Directors	Nationality
Mr. Vikramaditya Singh Khichi	Indian
Mr. Vinay Kumar Rathi*	Indian
Mr. Saravanakumar A.**	Indian
Dr. Krishnama Chary Mudumba**	Indian
Dr. Winfred N. Karugu	Kenyan
Mr. Ramesh Chunilal Mehta	Kenyan
Mr. Ravi Kant Pathak	Indian
Mr. Stephen Lugalia	Kenyan

*Approved by CBK w.e.f 03/02/2022; **Since resigned

8. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

9. Statement of disclosure to the company's auditor

With respect to each person who is a director on the day that this report is approved:

- There is, so far as the person is aware, no relevant audit information of which the bank's auditor is unaware; and
- The person has taken all the steps that he/she ought to have taken as a director to be aware of any relevant audit information and to establish that the bank's auditor is aware of that information

10. Terms of appointment of the auditor

Grant Thornton continues in office in accordance with the bank's Articles of Association and Section 719 (2) of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap. 488). 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.

11. Approval of financial statements

The financial statements were approved at a meeting by the board of directors on March 04, 2022 and were signed on its behalf by:

By order of the Board

Company Secretary

Statement of Directors' responsibility

The Kenyan Companies Act, 2015 requires the directors to prepare annual report and financial statements for each financial year that give a true and fair view of the financial position of the bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the bank maintains proper accounting records that are sufficient to show and explain the transactions of the bank and disclose, with reasonable accuracy, the financial position of the bank. The directors 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 annual report and financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual report and financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the bank's ability to continue as a going concern.

The directors acknowledge that the independent audit of the annual report and financial statements does not relieve them of their responsibilities.

The annual report and financial statements set out on pages 17 to 55, which have been prepared on the going concern basis, were approved by the directors on March 04, 2022 and were signed on its behalf by:

Mr. Vinay Kumar Rathi
Managing Director

Ravi Kant Pathak
Director

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Baroda (Kenya) Limited

Report on the Audit of the Annual Report And Financial Statements

Opinion

We have audited the annual report and financial statements of Bank of Baroda (Kenya) Limited (the bank) set out on pages 15 to 61, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Kenya) Limited as at 31 December 2021, and 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual report and financial statements of the current period. These matters were addressed in the context of our audit of the annual report and financial statements as a whole, and in forming Our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the directors' report which we obtained prior to the date of this Auditor's Report and the Annual report which is expected to be made available to us after that date. The other information does not include the annual financial statements and our auditor's report thereon.

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

Responsibilities of the directors for the Annual Report And Financial Statements

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

In preparing the annual report and 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.

Those charged with governance are responsible for overseeing the bank's financial reporting process.

Auditor's responsibilities for the audit of the Annual Report And Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual report and 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 International Standards on Auditing 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 annual report and financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

i. Identify and assess the risks of material misstatement of the annual report and 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
ii. 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.
iii. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
iv. 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 annual report and 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.
v. Evaluate the overall presentation, structure and content of the annual report and financial statements, including the disclosures, and whether the annual report and financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual report and financial statements of the current year and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

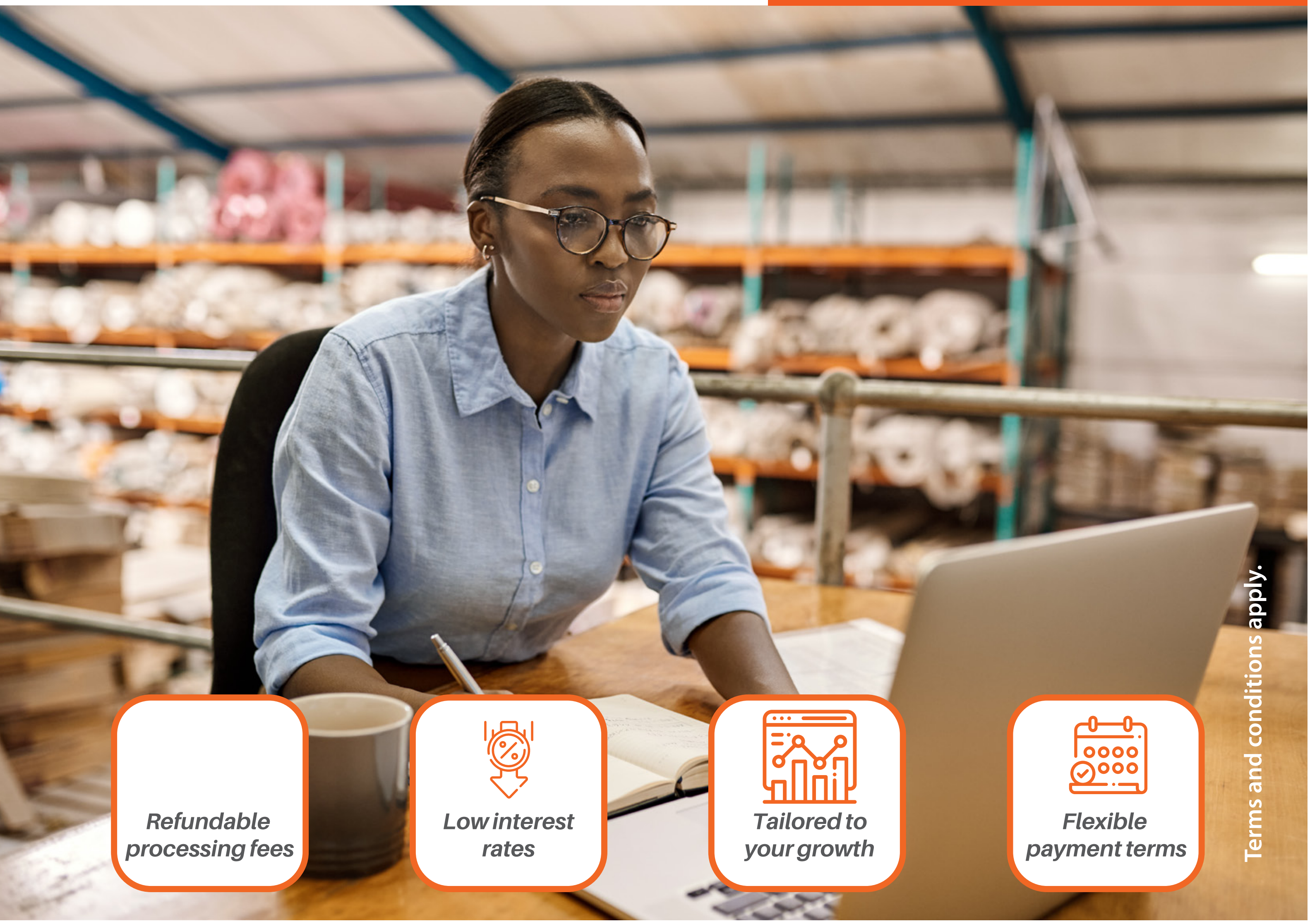
As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that in our opinion the information given in the report of the directors on page 9 - 10 is consistent with the annual financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Alfred Siele, Practicing Certificate No. 1690

For and on behalf of Grant Thornton
Certified Public Accountants (Kenya)
Nairobi
B/108/1221/___/0322/AUD

BARODA
TRADERS LOAN

"TAKE YOUR BUSINESS TO THE NEXT LEVEL."



Features

- *Term Loan/Overdraft*
- *Max Limit: Kes. 50.00Mn*
- *Non-fund based facility also available*
- *Repayment: Upto 5 years*
- *For trade of commodities/goods*
- *Easy takeover of loans from other banks*

Apply for a Baroda Traders Loan today!

Baroda Traders Loan provide's a simple hassle-free and security linked advance.

Baroda Traders Loan (BTL) is one of the key products of retail loan basket available against the security of immovable property/ies, which caters to the financial needs of business entities in trading of permissible goods. The objective of Baroda Traders Loan is to provide a simple hassle-free and security linked advance, where neither the drawing power is determined by value of stock nor traders are required to submit various financial statements on monthly basis.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2021 Kshs '000	2020 Kshs '000
Interest income	4	17,321,246	15,451,902
Interest expense	5	(9,088,080)	(7,826,859)
Net interest income		**8,233,166**	**7,625,043**
Fees and commission income		186,181	188,105
Foreign exchange trading income		153,205	123,863
Other income	6	831,587	167,016
Operating expenses	7	(1,739,165)	(1,473,529)
Impairment losses on financial assets	10	(888,943)	(800,710)
Operating Profit		**6,776,031**	**5,829,788**
Finance cost	11	(92,532)	(39,265)
Profit before taxation		**6,683,499**	**5,790,523**
Taxation	12	(1,483,960)	(1,267,999)
Profit for the year		**5,199,539**	**4,522,524**
Earnings per share			
Eanings per share		52.54	45.69
Dividend			
Proposed final dividend for the year		2,969,150	1,979,434
Dividend per share (KSh per share)		30.00	20.00
Profit for the year		**5,199,539**	**4,522,524**
Other comprehensive income:			
Fair value gains on investments in financial instruments measured at FVOCI	13	(1,064,738)	989,803
Other comprehensive income for the year net of taxation		**(1,064,738)**	**989,803**
Total comprehensive income		**4,134,801**	**5,512,327**

The accounting policies on pages 23 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

Statement of financial position

	Note(s)	2021 Kshs '000	2020 Kshs '000
Assets			
Cash in hand	14	373,043	314,674
Balances with Central Bank of Kenya	15	8,170,344	6,759,736
Government securities	16	112,526,497	99,901,571
Deposits and balances due from other banking institutions	17	2,750,278	9,876,362
Other assets	18	543,882	491,097
Loans and advances	19	54,628,212	47,635,245
Investment securities	20	19,562	19,560
Tax receivable	12	79,325	79,325
Right of use asset	23	404,159	427,757
Intangible assets	22	1,770	2,994
Property and equipment	24	717,267	797,928
Deferred tax	25	166,734	6,281
Total Assets		**180,381,073**	**166,312,530**
Equity and Liabilities			
Liabilities			
Customer deposits	26	149,371,985	135,000,214
Deposits and balances due to other banking institutions	27	547,761	3,405,580
Other liabilities	28	748,913	751,272
Lease liabilities	28	466,992	478,789
Deferred tax	25	-	-
Current tax payable	12	413,381	-
Total Liabilities		**151,549,032**	**139,635,855**
Equity			
Share capital	29	1,979,434	1,979,434
Fair value reserve	30	(13,237)	1,051,501
Retained income		23,896,694	21,666,306
Proposed dividends	32	2,969,150	1,979,434
Total Equity		**28,832,041**	**26,676,675**
Total Equity and Liabilities		**180,381,073**	**166,312,530**
Off balance sheet items			
Letters of credit, guarantees and acceptances		5,524,108	5,863,528
Bills sent for collection		1,684,895	1,422,732
Forwards, spots, swaps and options		173,891	282,164
		7,382,894	**7,568,424**

The annual financial statements and the notes on pages 17 to 55, were approved by the board of directors on March 04, 2022 and were signed on its behalf by:

			Africa Registrars
Mr. Vinay Kumar Rathi	Mr. Ravi Kant Pathak	Dr. Winfred N. Karugu	African Registrars
Managing Director	Director	Director	Company Secretary

The accounting policies on pages 23 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

Statement of Changes in Equity

	Share capital Kshs '000	Fair value reserve Kshs '000	Statutory loan loss reserve Kshs '000	Total reserves Kshs '000	Retained income Kshs '000	Proposed dividends Kshs '000	Total equity Kshs '000
Balance at January 01, 2021	**1,979,434**	**1,051,501**	-	**1,051,501**	**21,666,305**	**1,979,434**	**26,676,674**
Total comprehensive income for the year	-	(1,064,738)	-	(1,064,738)	5,199,539	-	4,134,801
Total adjusted balance	-	**(1,064,738)**	-	**(1,064,738)**	**5,199,539**	-	**4,134,801**
Dividends paid	-	-	-	-	-	(1,979,434)	(1,979,434)
Dividends proposed	-	-	-	-	(2,969,150)	2,969,150	-
Total changes	-	-	-	-	**(2,969,150)**	**989,716**	**(1,979,434)**
Balance at December 31, 2021	**1,979,434**	**(13,237)**	-	**(13,237)**	**23,896,694**	**2,969,150**	**28,832,041**
Balance at January 01, 2020	**1,979,434**	**61,698**	**223,812**	**285,510**	**18,698,284**	**1,979,434**	**22,942,662**
Total comprehensive income for the year	-	989,803	-	989,803	4,522,525	-	5,512,328
Total adjusted balance	-	**989,803**	-	**989,803**	**4,522,525**	-	**5,512,328**
Transfer to statutory loan loss reserve	-	-	(223,812)	223,812		-	-
Restatement opening balance as per IFRS 9					201,118		201,118
Dividends paid	-	-	-	-	-	(1,979,434)	(1,979,434)
Dividends proposed	-	-	-	-	(1,979,434)	1,979,434	-
Total changes	-	-	**(223,812)**	**223,812**	**(1,554,504)**	**1,979,434**	**(1,778,316)**
Balance at December 31, 2020	**1,979,434**	**1,051,501**	-	**1,051,501**	**21,666,305**	**1,979,434**	**26,676,674**

Statement of cash flows

Cash flows from operating activities	Note(s)	2021 Kshs '000	2020 Kshs '000
Cash flows from operating activities			
Cash generated from operations	34	17,510,264	24,689,893
Finance cost	11	(92,532)	(39,265)
Tax paid	12	(1,151,708)	(1,299,590)
Net cash from operating activities		**16,266,024**	**23,351,038**
Cash flows from investing activities			
Purchase of property and equipment	24	(175,650)	(78,801)
Sale of property and equipment	24	195,656	1,049
Purchase of government securities		(12,624,926)	(22,168,150)
Purchase of Investment Securities		(2)	160
Net cash from investing activities		**(12,604,922)**	**(22,043,727)**
Cash flows from financing activities			
Payment on lease liabilities		(134,522)	(88,298)
Dividends paid		(1,979,434)	(1,979,434)
Net cash used in financing activities		**(2,113,956)**	**(2,067,732)**
Net movement in cash and cash equivalents for the year		**1,547,146**	**(760,421)**
Cash in hand at the beginning of the year	14	314,674	371,698
Balance with the Central Bank of Kenya at the beginning of the year	15	6,759,736	7,463,134
Total Cash and cash equivalents at end of the year	14&15	**8,621,556**	**7,074,411**

BARODA
EDUCATION LOAN

"LAYING THE FOUNDATION FOR A BETTER FUTURE."

Features

- *For students requiring education loans*
- *80% of education expenses covered*
- *Max Limit: upto Kes. 10.00Mn*
- *Repayment: Upto 10 years*

Apply for a Baroda Education Loan today!

To meet educational expenses of student for study in Kenya or abroad

With the purpose of assisting parents and students meet educational expenses of student for study in Kenya or abroad, Bank of Baroda (Kenya) Ltd offers Baroda Education Loan. Our endeavor is to identify meritorious students who have both will and potential to learn and achieve heights in future and support those deserving students who are in need of finance. Education is the foundation on which strong and robust countries are built and we aim to promote this.

ACCOUNTING POLICIES

ACCOUNTING POLICIES

Corporate information

Bank of Baroda (Kenya) Limited is a private limited company incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The bank is licensed under the Banking Act (Cap 488) and provide banking, financial and related services.

The bank operates 14 branches within Kenya.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual report and financial statements are set out below.

1.1 Basis of preparation

a) Statement of compliance

The annual report and financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual report and financial statements and the Kenyan Companies Act, 2015 and the Banking Act.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these annual report and financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

The annual report and financial statements have been prepared on the historic cost convention as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below.

b) Functional currency

The finacial statements are presented in Kenya Shillings (Kshs) which is also the company's functional currency. These accounting policies are consistent with the previous period.

1.2 Critical judgements and accounting estimates

The preparation of annual report and financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future years affected.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

Impairment of loans and advances

The bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Key sources of estimation uncertainty

Impairment of financial assets
The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For

Fair value estimation
Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Useful lives of property, plant and equipment
Useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Provisions
Provisions are inherently based on assumptions and estimates using the best information available.

1.3 Property and equipment
Property and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property and equipment is recognised as an asset 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.

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property and equipment have been assessed as follows:

Item	Depreciation Method	Rate % and method of depreciation
Building	Straight line	Over remaining lease period
Furniture & Fittings	Diminishing balance	12.5
Motor Vehicles	Diminishing balance	25
IT equipment	Straight line	Over three years
Leasehold	Straight line	Over ten years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:
i) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
ii) the cost of the asset can be measured reliably. Intangible assets are initially recognised at cost.
Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

- Computer software with a useful life of 5 years

1.5 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments. Broadly, the classification possibilities, which are adopted by the bank, as applicable, are as follows:

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- All other financial assets are classified and measured at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

Debt instruments at fair value through other comprehensive income

Classification

The bank holds certain investments in bonds which are classified and subsequently measured at fair value through other comprehensive income (note 13).

They have been classified in this manner because the contractual terms of these debt instruments give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the objectives of the bank's business model is achieved by both collecting the contractual cash flows on these instruments and by selling them.

Even though they are measured at fair value, the bank determines the amortised cost of each instrument as if they were measured at amortised cost. The difference, at reporting date, between the amortised cost and the fair value of the debt instruments, is recognised in other comprehensive income and accumulated in equity in the fair value reserve.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Debt instruments denominated in foreign currencies

When a debt instrument measured at fair value through other comprehensive income is denominated in a foreign currency, the amortised cost and the fair value (carrying amount) of the investment is determined in the foreign currency. The amortised cost and fair value is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any foreign exchange gains or losses arising on the amortised cost of the instrument are recognised in profit or loss in the foreign exchange trading income. The remaining foreign exchange gains or losses relate to the valuation adjustment and are included in other comprehensive income and are accumulated in equity in the fair value reserve.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial risk management note (note 3).

Derecognition

Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

On derecognition of a debt instrument at fair value through other comprehensive income, the cumulative gain or loss on that instrument which was previously accumulated in equity in the fair value reserve is reclassified to profit or loss

Loans and advances to customers

Classification

Loan and advances to customers are classified as financial assets and subsequently measured at amortised cost (note 19). They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the bank's business model is to collect the contractual cash flows on loan and advances to customers.

Recognition and measurement

Loan and advances to customers are recognised when the bank becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Loans and advances to customers denominated in foreign currencies

When loan and advances to customers are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in Foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management (note 3).

Impairment

The bank recognises a loss allowance for expected credit losses on loan and advances to customers. The amount of expected credit losses is updated at each reporting date.
The bank measures the loss allowance for loan and advances to customers which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL). The loss allowance for all other loan and advances to customers is measured at lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk on these receivables has not increased significantly since initial recognition, then the loss allowance for those receivables is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL to loan and advances to customers which do have a significant financing component, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a receivable or group of receivables has increased significantly since initial recognition, the bank compares the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the bank consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the bank considers that default has occurred when a receivable is more than 30 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of expected credit losses

The bank makes use of a provision matrix as a practical expedient to the determination of expected credit losses on loan and advances to customers. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of loan and advances to customers, through use of a loss allowance account. The impairment loss is included in Impairment losses on loans and advances in profit or loss as a movement in credit loss allowance (note 9).

Write off policy
The bank writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the bank recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk
Details of credit risk are included in the loan and advances to customers note (note 19) and the financial risk management note (note 3).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Customer deposits

Classification
Customer deposits (note 26) and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement
They are recognised when the bank becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.
They are subsequently measured at amortised cost using the effective interest method.

Customer deposits expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 3 for details of risk exposure and management thereof.

Customer deposits denominated in foreign currencies
When customer deposits are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management note (note 3).

Derecognition
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents
Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

Balances with Central Bank of Kenya
Balances with Central Bank of Kenya are stated at carrying amounts which is deemed to be fair value.

Derecognition Financial assets
The bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the bank continues to recognise the financial asset.

Financial liabilities
The bank derecognises financial liabilities when, and only when, the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification Financial assets
The bank only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.
The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities
Financial liabilities are not reclassified.

1.6 Tax
Current tax assets and liabilities
Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.
Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses
Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

i. a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
ii. a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

The bank assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is identified, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Bank as lessee
A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets.

For these leases, the bank recognises the lease payments as an operating expense (note 7) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the bank has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the bank is a lessee are presented in note 23 Leases (bank as lessee).

Lease liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate.

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

i. fixed lease payments, including in-substance fixed payments, less any lease incentives;
ii. variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
iii. the amount expected to be payable by the bank under residual value guarantees;
iv. the exercise price of purchase options, if the bank is reasonably certain to exercise the option;
v. lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
vi. penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of- use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 9).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 11).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

i. there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
ii. there has been a change in the assessment of whether

the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

iii. there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

iv. there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;

v. a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

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

Right-of-use assets

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

i. the initial amount of the corresponding lease liability;
ii. any lease payments made at or before the commencement date;
iii. any initial direct costs incurred;
iv. any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
v. less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Depreciation starts at the commencement date of a lease. For right-of-use assets which are depreciated over their useful lives

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately. The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.8 Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefit costs

The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The bank has no further payment obligations once the contributions have been paid. The company's obligations to the schemes are recognised in the Statement of Profit or Loss and Other Comprehensive income.

The bank and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are etermined by local stature and the bank's contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year they fall due.

Employee entitlements

Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

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

1.11 Provisions and contingencies

Provisions are recognised when:

i. the bank has a present obligation as a result of a past event;
ii. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
iii. a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.12 Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises net interest income and non interest income. Income is recognised on an accrual basis in the period in which it is earned.

(i) Interest and similar income and expense

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit and loss. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than creditimpaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income and expense are recognised in profit or loss on the accrual basis. Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

(ii) Fees and commission income

Fees and commission income is recognised on an accrual basis when the service is provided. This income comprises appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

(iii) Foreign exchange trading income

Foreign exchange trading income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized exchange gains or losses.

1.13 Translation of foreign currencies Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

i. foreign currency monetary items are translated using the closing rate;
ii. non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
iii. non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

1.14 Impairment for non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.15 Dividends

Proposed dividends are disclosed as a separate component of equity until declared. Dividends are recognised as a liabilities in the period in which they are approved by the bank's shareholders.

1.16 Contingent liabilities

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

1.17 Statutory loan loss reserve

These are provisions that have been appropriated from Retained Earnings. This applies if provisions computed under the Risk Classification of Assets and Provisioning Guidelines is in excess of impairment losses computed under the International Financial Reporting Framework.

1.18 Interest expense

Interest for all interest-bearing financial liabilities are recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

NOTES TO THE FINANCIAL STATEMENTS

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2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 7

The amendment sets out additional disclosure requirements related to interest rate benchmark reform. The effective date of the amendment is for years beginning on or after 01 January 2021.

The bank has adopted the amendment for the first time in the 2021 annual report and financial statements. The impact of the amendment is not material.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient. This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after 01 January 2021.

The bank has adopted the amendment for the first time in the 2021 annual report and financial statements. The impact of the amendment is not material.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after 01 January 2021.

The bank has adopted the amendment for the first time in the 2021 annual report and financial statements. The impact of the amendment is not material.

Interest Rate Benchmark Reform - Phase 2: Amendments to IAS 39

Temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of financial items as hedged items have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after 01 January 2021.

The bank has adopted the amendment for the first time in the 2021 annual report and financial statements. The impact of the amendment is not material.

COVID-19 - Related Rent Concessions - Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for it were not lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payment affects only payments originally due on or before 30 June 2022 and
- there is no substantive change to other terms and conditions of the lease.

The effective date of the amendment is for years beginning on or after 01 June 2020.

The bank has adopted the amendment for the first time in the 2021 annual report and financial statements. The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 January 2021 or later periods:

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the annual report and financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Definition of accounting estimates: Amendments to IAS 8
The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in annual report and financial statements that are subject to measurement uncertainty."

The effective date of the bank is for years beginning on or after 01 January 2023.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1
The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the bank is for years beginning on or after 01 January 2023.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1
A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The effective date of the bank is for years beginning on or after 01 January 2022.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Reference to the Conceptual Framework: Amendments to IFRS 3
The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 IASC's Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 Provisions, Continent Liabilities and Contingent Assets or IFRIC 21 Levies. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the Acquisition date.

The amendment further clarifies that contingent assets of acquirees share not be recognised as part of the business combination.

The effective date of the bank is for years beginning on or after 01 January 2022.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9
The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the bank is for years beginning on or after 01 January 2022.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the bank is for years beginning on or after 01 January 2022.

It is unlikely that the amendment will have a material impact on the bank's annual report and financial statements.

3. Financial instruments and risk management

Financial risk management

Overview

The bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice Risk management function is carried out by the bank's risk management department under policies approved by the Board of Directors. The bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

Capital management

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

- To comply with the capital requirements set by the regulator, 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.

The bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya.

These ratios measure capital adequacy by comparing the bank's core capital with total risk-weighted assets plus risk weighed off- balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit risk weighted assets

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting.

Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes statutory loan loss provisions and non-dealing investments.

Market risk weighted assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential regulations.

Operational risk weighted assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table below summarizes the composition of the regulatory capital.

	Balance sheet nominal amount		Risk weighted amount	
	2021	**2020**	**2021**	**2020**
Cash in hand	373,043	314,675	-	-
Balances with Central Bank of Kenya	8,170,344	6,759,736	-	-
Governement securities	112,526,497	99,901,570	-	-
Deposits and balances due from other banking institutions	2,750,278	9,876,362	550,056	1,975,272
Other assets	543,882	491,094	543,882	491,094
Loans and advances to customers	54,628,212	47,635,830	48,909,034	41,714,662
Investment securities	19,562	19,560	19,562	19,560
Current tax receivable	79,325	79,325	79,325	79,325
Right of use asset	404,159	427,757	404,159	427,757
Intangible assets	1,770	2,994	1,770	2,994
Property and equipment	717,267	797,928	717,267	797,928
Deferred tax	166,734	6,281	166,734	6,281
	180,381,073	166,313,112	51,391,789	45,514,873
Off balance sheet position	7,382,894	7,568,424	7,003,645	2,351,049
Less: Market Risk qualifying Assets included in above	(19,562)	(19,560)	(19,562)	(19,560)
Adjusted credit risk weighted assets	**187,744,405**	**173,861,976**	**58,375,872**	**47,846,362**
Market risk				
Total Market Risk Weighted Assets Equivalent	**24,401,534**	**25,753,937**	**24,401,534**	**25,753,937**
Operational Risk Equivalent Assets	14,209,745	13,242,102	14,209,745	13,242,102
Total market risk capital charge	**38,611,279**	**38,996,039**	**38,611,279**	**38,996,039**
Total market risk weighted assets	**226,355,684**	**212,858,015**	**96,987,151**	**86,842,401**

	2021 Kshs '000	**2020 Kshs '000**
Capital adequacy requirement calculation		
Tier I -Core Capital	28,678,544	26,670,394
Add: Paid-up ordinary share capital	1,979,434	1,979,434
Retained earnings and other reserves	24,635,457	22,154,150
Net after tax profits for the current year	2,230,389	2,543,091
Less: Deferred Tax Asset	(166,734)	(6,281)
Total Capital	28,678,544	26,670,394
Total deposit liabilities	149,371,985	135.000,215

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual Ratios		Minimum Requitement	
	2021	2020	2021	2020
Core capital to total risk weighted assets	29.98%	30.71%	10.50%	10.50%
Total capital to total risk weighted assets	29.98%	30.71%	14.50%	14.50%
Core capital to deposit liabilities	19.20%	19.76%	8.00%	8.00%

Credit risk
The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the bank.

Measurement of credit risk
- Loans and advances
In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:
- The probability of default by the borrower/client on their contractual obligations;
- Current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
- The likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IFRS 9 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

- Investments
For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

- Risk limit control and mitigation policies
The bank manages, limits and controls concentrations of credit risk wherever they are identified. 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 subject to annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- Collateral
The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:
- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

- Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. 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 advance or loan.

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.

- Impairment and provisioning policies

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IFRS 9 and the Prudential Guidelines to determine the amount of impairment.

- Exposure to credit risk

The 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 other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 62.41% (2020: 60.07%) of Bank`s total assets; 31.81% (2020: 30.30%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts is 89.53% (2020: 87.60%) of the loans and advances portfolio is categorised in
- The % of Normal and Watch Accounts is 18.35% (2020: 14.81%) are considered to be past due but not impaired.
- Loans and advances portfolio share of 10.47% (2020: 12.40%) are considered to be past due and impaired.
- Most of the loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. Additionally, the loans and advances are adequately secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical information

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and 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 maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the iquidity of the bank and its exposure to changes in interest and exchange rates.

The bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainity. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sifficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits.The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 81.9% (2020: 83.2%) during the year.

The table overleaf analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

At December 31, 2021	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	373,043	-	-	-	-	**373,043**
Balances with Central Bank of Kenya	352,714	-	-	-	7,817,630	**8,170,344**
Government securities	12,971,418	4,147,164	2,695,285	10,796,084	81,916,546	**112,526,497**
Deposits and balances due from other banking institutions	2,750,278	-	-	-	-	**2,750,278**
Other assets	52,471	154,261	79,325	108,900	228250	**623,207**
Loans and advances to customers	25,481,659	1,461,518	2,716,803	5,070,233	19,897,999	**54,628,212**
Investment securities	-	-	-	-	19,562	**19,562**
Intangible assets	-	-	354	354	1,062	**1,770**
Right of use asset	404,159	-	-	-	-	**404,159**
Property and equipment	-	-	145,796	-	571,471	**717,267**
Deferred tax	-	-	-	-	166,727	**166,727**
Total assets	42,385,742	5,762,943	5,637,563	15,975,571	110,619,254	**180,381,073**
Liabilities and shareholders' equity						
Customer deposits	65,586,875	30,334,392	413,381	1,872,018	116,338	**149,371,985**
Deposits due to other banking institutions	547,761	-	-	-	-	**547,761**
Lease Liabilities	-	-	-	-	466,992	**466,992**
Other liabilities	165,983	490,980	2,005,049	91,950	-	**1,162,294**
Shareholders' equity	2,969,150	(13,237)	5,199,539	-	20,676,589	**28,832,041**
Total liabilities and equity	69,269,769	30,812,135	57,075,282	1,963,968	21,259,919	**180,381,073**
Net liquidity gap as at December 31, 2021	(26,884,027)	(25,049,192)	(51,437,719)	14,011,603	89,359,335	-

At December 31, 2020						
Total assets	39,856,010	5,022,785	5,574,614	11,508,925	104,350,778	**166,313,112**
Total liabilities and equity	71,889,551	28,994,013	43,105,344	2,464,771	19,859,433	**166,313,112**
Net liquidity gap as at December 31, 2020	(32,033,541)	(23,971,228)	(37,530,730)	9,044,154	84,491,345	-

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies.

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

Cash flow interest rate risk At December 31, 2021	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 3 years**	**Over 3 years**	**Non Interest Bearing**	**Total**
Assets							
Cash in hand	373,043	-	-	-	-	-	**373,043**
Balances with Central Bank of Kenya	352,714	-	-	-	-	7,817,630	**8,170,344**
Government securities	12,971,418	4,147,164	2,695,285	10,796,084	81,916,546	-	**112,526,497**
Deposits and balances due from other banking institutions	2,750,278	-	-	-	-	-	**2,750,278**
Other assets	-	-	-	-	-	623,207	**623,207**
Loans and advances to customers	25,481,659	1,461,518	2,716,803	5,070,233	16,360,796	3,537,203	**54,628,212**
Investment securities	-	-	-	-	-	19,562	**19,562**
Intangible assets	-	-	-	-	-	1,770	**1,770**
Right of use asset	-	-	-	-	-	404,159	**404,159**
Property and equipment	-	-	-	-	-	717,267	**717,267**
Deferred tax	-	-	-	-	-	166,727	**166,727**
Total assets	41,929,112	5,608,682	5,412,088	15,866,317	98,277,342	13,287,532	**180,381,073**
Cash flow interest rate risk							
Liabilities and shareholders' equity							
Customer deposits	54,910,284	30,334,392	51,462,362	1,872,018	116,338	10,676,591	**149,371,985**
Deposits due to other banking institutions	547,761	-	-	-	-	-	**547,761**
Lease Liabilities	-	-	-	-	466,992	-	**466,992**
Other liabilities	-	490,980	-	91,950	-	579,364	**1,162,294**
Shareholders' equity	-	-	-	-	-	28,832,041	**28,832,043**
Total liabilities and equity	55,458,045	30,825,372	51,462,362	1,963,968	583,330	40,087,996	**180,381,073**
Interest sensitivity gap as at 31/12/2021	(13,528,933)	(25,216,690)	(46,050,274)	13,902,349	97,694,012	(26,800,464)	**-**
At December 31, 2020							
Total assets	39,272,969	4,903,676	5,421,607	11,412,100	93,792,723	11,510,037	**166,313,112**
Total liabilities and equity	59,238,037	27,942,512	39,044,569	2,469,124	274,467	3,744,403	**166,313,112**
Interest sensitivity gap as at 31/12/2020	(19,965,068)	(23,038,836)	(33,622,962)	8,942,976	93,518,256	7,765,634	**-**

The tables below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

2021	**K Sh**	**USD**	**GBP**	**Euro**
Government securities	12.02%	- %	- %	- %
Deposits and balances due from banking institutions	6.52%	1.35%	- %	- %
Loans and advances to customers	11.68%	7.30%	4.72%	6.23%
Customer deposits	7.29%	0.59%	7.27%	- %
Deposits and balances due to banking institutions	0.71%	- %	- %	- %

2020	**K Sh**	**USD**	**GBP**	**Euro**
Government securities	12.16%	- %	- %	- %
Deposits and balances due from banking institutions	6.92%	- %	- %	- %
Loans and advances to customers	12.16%	7.85%	5.32%	6.38%
Customer deposits	7.38%	0.81%	3.21%	- %
Deposits and balances due to banking institutions	1.80%	- %	- %	- %

Interest rate risk sensitivity

At 31 December 2021, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

	2021 Kshs `000	**2020 Kshs `000**
Effect on interest income - increase	849,295	819,185
Effect in interest expense - (increase)	(428,540)	(368,578)
Net effect on profit after tax - increase	420,755	450,607

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondant banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed on a daily basis by management.

The significant currency positions are detailed below:

At 31 December 2021	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	41,958	3,416	5,563	-	50,937
Balances with Central Bank of Kenya	236,582	78,211	17,022	20,899	352,714
Deposits due from other banking institutions	1,148,665	1,401,431	166,764	32,454	2,749,314
Loans and advances to customers	12,522,414	1,509,846	163,223	-	14,195,483
Total assets	13,949,619	2,992,904	352,572	53,353	17,348,448
Liabilities and shareholders' equity					
Customer deposits	14,309,574	2,867,239	351,132	-	17,527,945
Deposits due to other banking institutions	531,764	-	-	15,997	547,761
Total liabilities and equity	14,841,338	2,867,239	351,132	15,997	18,075,706
Net statement of financial position gap	(891,719)	125,665	1,440	37,356	(727,258)
Off balance sheet net notional position	71,292	-	-	30,489	101,781
At December 31, 2020					
Total assets	16,118,164	3,861,012	311,193	27,989	20,318,358
Total liabilities and equity	13,003,389	3,910,144	311,094	3,193,552	20,418,179
Net statement of financial position gap	3,114,775	(49,132)	99	(3,165,563)	(99,821)

Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. 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 on the return on risk. Overall management for management of market risk rests with the Assets & Liability 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 the policies.

Market risks arise mainly from trading and non-trading activities.

Trading portfolios include those positions arising from market-making transactions where the bank acts as a principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the bank's available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below:

- ALCO review:

ALCO meets on an adhoc basis to review the following:

- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

- Review by the treasury department:

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

Operational risk

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

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

2021	**USD**	**GBP**	**EURO**	**Others**	**Total**
Effect on profit - Increase / (decrease)	35,800	(25,884)	(6,729)	1,739	4,926
2020	**USD**	**GBP**	**EURO**	**Other**	**Total**
Effect on profit - Increase / (decrease)	39,778	(28,760)	(7,477)	1,932	5,473

Price risk sensitivity

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

The table below summarises the impact on increase in the market price on the Bank's equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

	Impact on other comprehensive income	
	2021	**2020**
Effect of increase	312,000	344,000

Figures in Kenyan Shillings ('000)	2021	2020
4. Interest income		
Revenue other than from contracts with customers		
Loans and advances to customers	4,957,302	4,781,551
Government securities	12,222,181	10,511,709
Deposits and balances due from banking institutions	141,763	158,642
	17,321,246	15,451,902
Disaggregation of revenue from contracts with customers		
The bank disaggregates revenue from customers as follows:		
Timing of revenue recognition		
At a point in time		
Government securities	12,222,181	10,511,709
Placements with other banks	141,763	158,642
	12,363,944	10,670,351
At a point in time		
Over time		
Loans and advances to customers	4,957,302	4,781,551
	17,321,246	15,451,902
5. Interest expense		
Term deposits	8,915,639	7,668,144
Current and savings accounts deposits	169,172	148,475
Deposits and balances due to banking institutions	3,269	10,240
	9,088,080	7,826,859
6. Other income		
Profit on disposal of assets	-	150
Dividend income	682	382
Recoveries of loans and advances previously provided	718,922	155,900
Securities trading income	111,680	10,273
Rental income	115	114
Miscellaneous income	188	197
	831,587	167,016
7. Operating Expenses		
The following are included within operating expenses		
Staff costs (Note 8)	909,413	741,933
Directors' emoluments	18,681	9,132
Depreciation and amortisation	145,796	193,618
Auditors remuneration	9,615	9,915
Contribution to Deposit Protection Fund	187,114	164,690
Operating lease rent	19,817	19,996
Loss on disposal of property	1,958	1,044
Administration expenses (Note 9)	317,335	250,396
Establishment expenses (Note 9)	129,436	82,805
	1,739,165	1,473,529

Figures in Kenyan Shillings ('000)	2021	2020
8. Staff costs		
Salaries and wages	671,077	554,548
NSSF company contribution	45,950	35,673
Staff leave	13,045	12,650
Other staff expenses	179,341	138,288
	909,413	741,159
Number of persons in employement for the year		
Management	155	131
Supervisory	4	1
Unionisable	86	109
	245	241
9. Expenses details		
(a) Administrative expenses		
Advertising	16,768	13,983
Computer expenses	53,975	38,769
Donations and fines	100	20381
Subscriptions and periodicals	2,165	4,896
Entertainment	330	223
Legal and professional fees	136,203	98,826
Miscellaneous	41,688	30,246
Postages and telephones	4,231	8,158
Printing and stationery	13,467	16,843
Secretarial fees	348	255
Insurance	16,962	11,144
Travelling and motor vehicle	14,135	6,672
	300,372	250,396
(b) Establishment expenses		
Electricity and water	22,693	23,825
Insurance	1,400	3,544
Licences	3,910	3,646
Office cleaning	13,781	11,328
Repairs and maintenance	45,902	40,462
Voluntary tax disclosure payment	41,750	-
	129,436	82,805
10. Impairment losses on financial assets;		
(a) Loans and advances to customers		
Expected Credit loss	888,943	800,710
	888,943	800,710
(b) Other financial assets	16,963	40,190
	16,963	40,190
11. Finance Costs		
Interest on lease liabilities	92,532	39,265
12. Taxation		
Major components of the tax expense		
Current		
Current year	1,644,414	1,190,362
	1,644,414	1,190,362
Deferred		
Current year	(160,454)	77,637
	(160,454)	77,637
	1,483,960	1,267,999

Figures in Kenyan Shillings ('000)	2021	2020
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	6,683,499	5,790,523
Tax at the applicable tax rate of 30% (2020: 25%)	2,005,050	1,447,631
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	13,188	10,900.62
Income not subject to tax	(524,691)	(190,533)
Tax rate change effect	(9,586)	
	1,483,960	1,267,999
Tax paid		
Balance at beginning of the year	79,325	(29,903)
Current tax for the year recognised in profit or loss	(1,644,414)	(1,190,362)
Balance at end of the year	413,381	(79,325)
	(1,151,708)	(1,299,590)

13. Other comprehensive income

Components of other comprehensive income

	2021	2020
Financial assets at fair value through other comprehensive income		
Government securities	(1,064,738)	1,149,847
Corporate bonds	-	(160,044)
	(1,064,738)	989,803

14. Cash in hand

	2021	2020
Cash and cash equivalents consist of:		
Cash in hand	373,043	314,675

Exposure to currency risk
Refer to note 3 on Financial instruments and financial risk management for details of currency risk management for cash
in hand.

15. Balances with Central Bank of Kenya

	2021	2020
Balances with Central Bank of Kenya	8,170,344	6,759,736
- Cash reserve ratio	7,817,630	6,174,925
- Other (available for use by the bank)	352,714	584,811
	8,170,344	6,759,736

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2021 the cash reserve ratio requirement was 4.25% (2020: 4.25%) of all customer deposits. These funds are not available for the Bank's day to day operations.

Exposure to credit risk
Balances with Central Bank of Kenya inherently expose the bank to credit risk, being the risk that the bankwill incur financial loss if counterparties fail to make payments as they fall due

Exposure to currency risk
Refer to note 3 on Financial instruments and financial risk management for details of currency risk management for cash in hand.

Figures in Kenyan Shillings ('000)	2021	2020
16. Government Securities		
Fair Value through other comprehensive income Treasury bonds	50,676,580	51,666,537
Amortised cost		
Treasury bonds	52,215,456	42,478,443
Treasury bills	9,634,461	5,756,590
	61,849,917	48,235,033
Total government securities	112,526,497	99,901,570
Fair Value through other comprehensive income	50,676,580	51,666,537
Amortised cost	61,849,917	48,235,033
	112,526,497	99,901,570
Government securities comprise of:		
Maturing within 91 days	12,971,418	1,047,952
Maturing after 91 days and within a year	6,842,448	3,032,078
Maturing after a year	10,796,084	10,200,445
Maturing after three years	81,916,547	85,621,095
	112,526,497	99,901,570

The fair values of the government securities classified as 'Fair Value through other comprehensive incomee' financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of amortised cost financial assets in 2021 and 2020, as all the financial assets were disposed of at their redemption date.

	2021	2020
17. Deposits and balances due from other banking institutions		
Balances with banking institutions in Kenya	340,388	139,978
Balances with banking institutions abroad	911,298	6,535,125
Balances with parent bank	1,498,592	3,201,259
	2,750,278	9,876,362
18. Other assets		
Clearing account	208,888	221,404
Other receivables	334,994	269,693
	543,882	491,097

In the opinion of the management, the banks exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report

	2021	2020
19. Loans and advances to customers		
Commercial loans	35,641,374	27,984,803
Overdrafts	22,374,008	23,026,150
Bills	150,033	140,238
Gross loans and advances	58,165,415	51,151,191
Expected credit loss on loans and advances	(3,191,306)	(3,177,776)
Suspended interest	(345,897)	(337,585)
Net loans and advances	54,628,212	47,635,830
Credit loss allowance		
At start of the year	3,177,776	2,871,383
Increase in expected credit loss for the year	805,586	503,666
Write off	(332,681)	(41,653)
Recoveries	(459,375)	(155,620)
At end of the year	3,191,306	3,177,776

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which expected credit loss have been recognised in books amount to Kshs. 6.088 Billion (2020: Kshs 6.342 billion). The amounts are included in the statement of financial position net of expected credit loss at Kshs. 2.3 Billion (2020: Kshs 2.4 billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income Interest income suspended amounting to Kshs 345.9 Million (2020: Kshs. 337.59 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the Bank.

Categorisation of provision for impaired loans and advances
Loans and advances are categorised as follows in accrodance with IFRS 9: Financial Instruments:

At amortised cost	54,628,212	47,635,830

Concentration
Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2021	2021	2020	2020
	Kshs `000	%	Kshs `000	Kshs `000
Agriculture	676,720	1.16%	1,683,646	3.29%
Manufacturing	13,788,915	23.71%	9,934,222	19.42%
Building and construction	4,645,890	7.99%	4,033,900	7.89%
Mining and quarrying	234,555	0.40%	169,355	0.33%
Energy and water	176,670	0.30%	153,640	0.30%
Trade	16,223,417	27.89%	18,066,915	35.32%
Tourism, restaurants and hotels	1,190,996	2.05%	1,146,785	2.24%
Transport and communication	4,838,196	8.32%	1,494,991	2.92%
Real estate	13,734,946	23.61%	11,818,373	23.10%
Financial services	207,700	0.36%	216,226	0.42%
Social, Community and Personal Households	2,447,410	4.21%	2,433,138	4.76%
	58,165,415	100%	51,151,191	100%

Figures in Kenyan Shillings ('000)	**2021**	**2020**
Loans and advances neither past due nor impaired, past due but not impaired and individually impaired		
Stage 1	41,406,702	37,233,593
Stage 2	10,670,628	7,575,612
Stage 3	6,088,085	6,341,985
Gross loans and advances to customers	58,165,415	51,151,190
Less: Credit loss allowance for loans and advances plus suspended interest	(3,537,203)	(3,515,360)
Net loans and advances to customers	54,628,212	47,635,830

The loans and advances that are less than 30 days are classified as Stage 1, loans and advances that are between 30 to 90 days past due are classified as Stage 2 while loans and advances that are 91 days past due are classified as Stage 3.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

Watch	10,670,628	7,575,612

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired
The fair value of the collateral value for loans and advances individually impaired is Kshs 3.4 Million (2020: Kshs 3.7 Million).

Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral
As at the end of the year, the Bank did not hold possession of any repossessed collateral held as security.

Exposure to credit risk
Loans and receivables inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

The bank's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles.

Exposure to currency risk
Refer to note 3 for details of currency risk management for loans and advances.

Figures in Kenyan Shillings ('000)	2021	2020
Loans and advances neither past due nor impaired, past due but not impaired and individually impaired		
Stage 1	41,406,702	37,233,593
Stage 2	10,670,628	7,575,612
Stage 3	6,088,085	6,341,985
Gross loans and advances to customers	58,165,415	51,151,190
Less: Credit loss allowance for loans and advances plus suspended interest	(3,537,203)	(3,515,360)
Net loans and advances to customers	54,628,212	47,635,830

20. Investment securities

	2021	2020
Quoted equity investments:		
At start of year	269	429
Fair value gain/(loss)	2	(160)
At end of the year	271	269
Unquoted equity investments:	19,291	19,291
At start and end of year	19,562	19,560

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in the accounting policy.

21. Intangible assets

	2021			2020		
	Cost	Accumulated Amortisation	Carrying value	Cost	Accumulated Amortisation	Carrying value
Computer software	22,328	(20,558)	1,770	22,328	(19,334)	2,994
Total	22,328	(20,558)	1,770	22,328	(19,334)	2,994

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	22,328	-	-	(20,558)	1,770
	22,328	-	-	(20,558)	1,770

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	22,328	-	-	(19,334)	1,770
	22,328	-	-	(19,334)	1,770

In the opinion of management there is no impairment in the value of intangible assets.

Amortisation costs are included in non interest expenses in the profit or loss.

22. Right of Use Asset

Details pertaining to leasing arrangements, where the bank is lessee are presented below:

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use are included in the following items;

Office rental space	404,159	427,757
Additions to right-of-use assets		
Office rental space	139,739	240,732

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.

Office rental space	54,909	116,680

The company leases rental space where the branches operate from. Each lease is reflected in the balance sheet as a right-of-use asset and a lease liability. The table below describes the nature of the company's leasing activities by type of right-of-use lease asset recognised on balance sheet:

	No of right of-use assets leased	Range of remaining term	Average remaining lease term
Right-of-use asset - 2021			
Office rental space	28	1 to 7 years	4 years
Right-of-use asset - 2020			
Office rental space	28	1 to 8 years	4 years

Additional information on the right-of-use assets are as follows as at 31 December 2021:

	Asset	Carrying value	Additions	Acumulated Depreciation
Office rental space	684,176	404,159	139,739	(280,016)
	684,176	404,159	139,739	(280,016)

23. Property, plant and equipment

	2021 Cost	2021 Accumulated depreciation	2021 Carrying Value	2020 Cost	2020 Accumulated depreciation	2020 Carrying Value
Buildings	396,285	(23,616)	372,669	551,990	(18,968)	533,022
Furniture and fittings	442,026	(178,359)	263,667	292,508	(129,031)	163,477
Motor vehicles	29,650	(24,997)	4,653	29,650	(23,446)	6,204
Computer and equipment	214,729	(191,434)	23,295	232,660	(200,868)	31,792
Leasehold improvements	203,878	(150,894)	52,984	207,654	(144,221)	63,433
Total	1,286,568	(569,300)	717,268	1,314,462	(516,534)	797,928

Reconciliation of property and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	551,990	2,314	(158,019)	(23,616)	372,669
Furniture and fittings	292,508	152,319	(2,802)	(178,359)	263,666
Motor vehicles	29,650	-	-	(24,997)	4,653
Computer and equipment	232,660	13,863	(31,793)	(191,435)	23,295
Leasehold improvements	207,654	7,154	(3,042)	(158,782)	52,984
	1,314,462	175,650	(195,656)	(577,189)	717,267

Reconciliation of property and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	25,231	518,713	-	(10,922)	533,022
Furniture and fittings	83,666	104,362	(1,049)	(23,501)	163,478
Motor vehicles	8,272	-	-	(2,070)	6,202
Computer and equipment	10,835	42,949	-	(21,991)	31,793
Leasehold improvements	61,644	18,237	-	(16,448)	63,433
	189,648	684,261	(1,049)	(74,932)	797,928

In the opinion of management, there is no impairment in the value of property and equipment.

24. Deferred tax

	2021 Kshs '000	2020 Kshs '000
Deferred tax asset		
Deferred tax	166,734	6,281
Reconciliation of deferred tax asset		
At beginning of the year	6,281	83,917
Accelerated capital allowances	115,826	(69,474)
Provisions	44,627	(8,162)
	166,734	6,281

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when

i. the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

ii. the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Figures in Kenyan Shillings ('000)	2021	2020
25. Customer deposits		
Savings account deposits	12,075,821	9,311,022
Current account deposits	10,676,591	10,367,392
Term deposits	126,619,573	115,321,801
	149,371,985	135,000,215
Analysis of customer deposits by maturity		
Payable within 90 days	65,586,875	65,614,045
Payable after 90 days and within one year	51,462,360	67,171,244
Payable after one year	32,322,749	2,214,926
	149,371,985	135,000,215

The economic sector concentrations within the customer deposits portfolio were as follows:

	2021 Kshs	2021 %	2020 Kshs	2020 %
Other institutions and individuals	128,008,629	85.70%	115,378,700	85.66%
Private companies	21,243,517	14.22%	19,508,246	14.25%
Insurance companies	119,839	0.08%	113,269	0.08%
	149,371,985	100%	135,000,215	100%

Included in customer accounts were deposits of Kshs. 5,719.178 million (2020: Kshs. 5,921.167 million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

26. Deposits and balances due to other banking institutions

	2021	2020
Parent bank	-	3,193,552
Foreign banks	547,761	212,028
	547,761	3,405,580
Split between non-current liabilities and current portions		
Current liabilities	547,761	3,405,580

27. Other liabilities and lease liabilities

	2021	2020
(a) Other liabilites		
Staff leave and gratuity accrual	420,714	353,352
Bills payable	136,054	136,054
Provisions for impairment on unutilised facilities and off balancesheet items	91,950	95,075
Other accounts payable	100,195	167,102
	748,913	751,583
(b) Lease liabilities		
The maturity analysis of lease liabilities is as follows:		
Within one year	99,488	45,929
Two to five years	282,398	355,860
More than five years	85,106	77,000
	466,992	478,789
Less finance charges component	(196,994)	(211,795)
	269,998	266,994
Non-current liabilities	367,504	432,860
Current liabilities	99,488	45,929
	466,992	478,789

The Bank has elected not to recognise a lease liability for short term leases (leases expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred lease rentals o operating lease expense.

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

Figures in Kenyan Shillings ('000)	2021	2020
28. Share capital		
Authorised		
98,971,676 Ordinary shares of Kshs. 20.00 each	1,979,434	1,979,434
Issued		
98,971,676 Ordinary shares of Kshs. 20.00 each	1,979,434	1,979,434

29. Fair value reserve

The fair value reserve relates to the cumulative net change in financial assets at fair value through other comprehensive income until the investment is derecognised.

The current year movements have been set out in (Note: 13).

30. Statutory loan loss reserve

Where impairment losses required by legislation or regulation exceed those computed under International Financial Reporting Standards (IFRS's), the excess is recognised as a statutory reserve and accounted for as an appropriation of Retained Earnings. The reserves are not distributable.

31. Dividends

	2021	2020
Proposed dividends	2,969,150	1,979,434

Dividends proposed are from operating profits

32. Related parties

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to related companies.

Key management includes the directors and other members of key management.

	2021	2020
(a) Compensation to key management		
Short-term employee benefits	39,456	36,875
Post-employment benefits	11,584	10,826
	51,040	47,701
(b) Interest received from loans and advances to:		
Related companies	2,021	4219
Senior management employees	1,611	1,197
Other employees	71,634	36,883
	75,266	42,299
(c) Interest paid on deposits from:		
Directors	82,751	112
Senior management employees	346	25
Other employees	7,880	2706
	90,977	2,843
(d) Management fees paid		
Related companies	71,771	28,365

	Related companies		Senior Management Employees		Other employees	
(e) Outstanding loans and advances	2021	2020	2021	2020	2021	2020
At start of year	17,289	18,370	13,193	14,821	535,809	505,542
Advances during the year	1,867	13,922	4,618	1,398	142,170	76,908
Interest charged	2,201	4,219	1,611	1,197	71,634	36,883
Repayments during the year	(4,243)	(19,223)	(6,187)	(4,223)	(164,158)	(83,524)
	17,114	17,289	13,235	13,193	585,455	535,809

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

	Directors		Related companies		Senior Management Employees		Other employees	
(f) Deposits	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
At start of year	451,070	315,788	-	28	920	257	127,429	85,022
Deposits received during the year	317,412	452,993	-	-	21,210	4,349	255,279	193,360
Interest paid during the year	82,751	112	-	-	346	25	7,880	2,706
Withdrawals during the year	(318,234)	(317,823)	-	(28)	(19,657)	(3,711)	(290,880)	(153,659)
	532,999	451,070	-	-	2,819	920	99,708	127,429

Figures in Kenyan Shillings ('000)	2021	2020
(g) Directors emoluments		
Allowances	18,681	9,132
	18,681	9,132

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

33. Cash generated from operations

Profit before taxation		
Adjustments for:	6,683,499	5,829,789
Depreciation and amortisation	145,796	152,408
Loss on sale of assets	1,958	127
Finance costs	92,532	39,265
Changes in working capital:		
Loans and advances to customers	(6,992,967)	(693,850)
Placement with and loans and advances to other banking institutions	294,712	79,176
Other assets	52,787	154,618
Due to local banking institutions	2,857,819	1,238,290
Customer deposits	14,371,771	17,826,776
Other liabilities	2,940	62,371
	17,571,429	24,688,970

34. Off-balance sheet financial instruments, contingent liabilities and commitments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of credits. The majority of these facilities are offset by corresponding obligations from third parties.

Contingent liabilities

Spots	173,891	89,300
Letters of credit	2,115,070	2,455,186
Guarantees	3,409,038	3,408,342
Bills sent for collection	1,684,895	1,422,732
Forwards	-	192,864
	7,382,894	**7,568,424**

Figures in Kenyan Shillings ('000)	2021	2020

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.
The Bank has open lines of credit facilities with correspondent Banks.

Commitments

Undrawn formal stand-by facilities, credit lines	4,990,256	5,444,965

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

The pending litigation claims relate to cases instituted by third parties against the Bank. Judgement in respect of these cases had not been determined as at 31 December 2021. The directors are of the opinion that no liabilities will crystallise.

There is an on going Kenya Revenue Authority review. The process is at the initial stages but management are confident about the bank's compliance status and does not expect a material liability to arise.

35. Currency

The financial statements are presented in Kenya Shillings rounded to the nearest thousand shilling ('000).

36. Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

37. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and number of shares outstanding during the year.

Net income for the period attributable to shareholders (Ksh. '000)	5,199,539	4,522,525
Number of ordinary shares in issue (Absolute)	98,971,676	98,971,676
Earnings per share (Ksh. Absolute)	52.54	45.70

38. Fair Value Fair Value Hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the bank can access at measurement date.
Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

39. Events after the reporting period

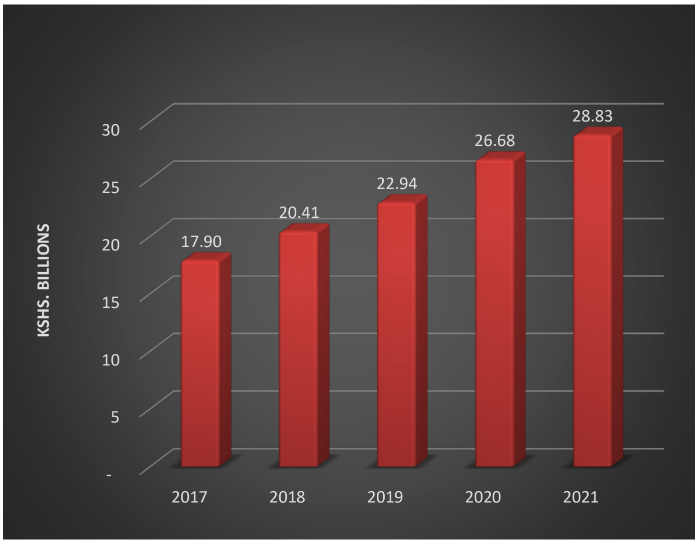
The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existence or on the financial performance of the Bank for the period.

APPENDIX

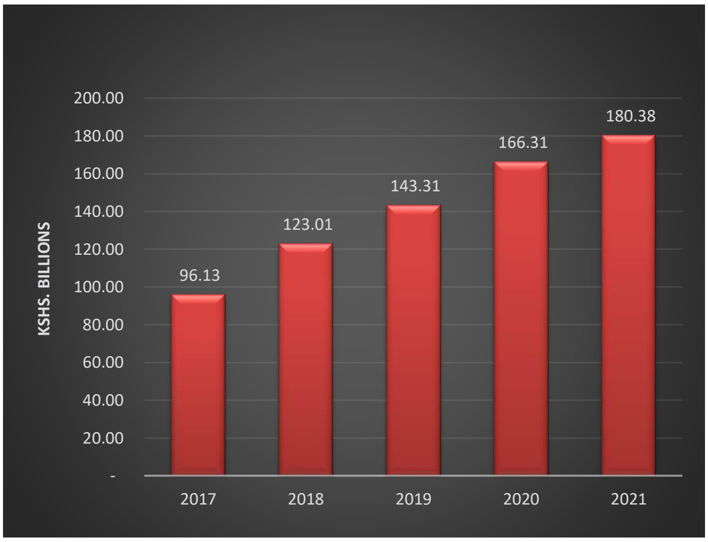
Figures in Kenyan Shillings ('000)	2021	2020
III OTHER DISCLOSURES		
1.0 NON-PERFORMING LOANS AND ADVANCES		
(a) Gross Non-performing loans and advances	6,088,085	6,341,985
(b) Less: Interest in Suspense	345,897	337,586
(c)Total Non-Performing Loans and Advances (a-b)	**5,742,188**	**6,004,399**
(d) Less: Loan Loss Provision	2,385,720	2,417,067
(e) Net Non-Performing Loans and Advances(c-d)	**3,356,468**	**3,587,332**
(f) Discounted Value of Securities	3,356,468	3,587,332
(g) Net NPLs Exposure (e-f)	-	-
2.0 INSIDER LOANS AND ADVANCES		
(a) Directors, Shareholders and Associates	18,656	-
(b) Employees	614,670	566,293
(c)Total Insider Loans and Advances and other facilities	**633,326**	**566,293**
3.0 OFF-BALANCE SHEET ITEMS		
(a)Letters of credit,guarantees, acceptances	5,524,108	5,863,528
(b) Forwards, swaps and options	173,891	282,164
(c)Other contingent liabilities	1,684,895	1,422,732
(d)Total Contingent Liabilities	**7,382,894**	**7,568,424**
4.0 CAPITAL STRENGTH		
(a)Core capital	**28,678,544**	**26,670,394**
(b) Minimum Statutory Capital	**1,000,000**	**1,000,000**
(c)Excess/(Dificiency)(a-b)	**27,678,544**	**25,670,394**
(d) Supplementary Capital	-	-
(e) Total Capital (a+d)	**28,678,544**	**26,670,394**
(f)Total risk weighted assets	**95,644,159**	**86,841,821**
(g) Core Capital/Total deposits Liabilities	**19.20%**	**19.76%**
(h) Minimum statutory Ratio	8.00%	8.00%
(I) Excess/(Deficiency) (g-h)	11.20%	11.76%
(j) Core Capital / total risk weighted assets	**29.98%**	**30.71%**
(k) Minimum Statutory Ratio	10.50%	10.50%
(l) Excess (Deficiency) (j-k)	19.48%	20.21%
(m) Total Capital/total risk weighted assets	**29.98%**	**30.71%**
(n) Minimum statutory Ratio	14.50%	14.50%
(o) Excess/(Deficiency) (m-n)	15.48%	16.21%
(p) Adjusted Core Capital/Total Deposit Liabilities*	19.24%	0.20
(q) Adjusted Core Capital/Total Risk Weighted Assets*	30.04%	0.31
(r) Adjusted Total Capital/Total Risk Weighted Assets*	30.04%	0.31
14 LIQUIDITY		
14 (a) Liquidity Ratio	**81.64%**	**83.28%**
14.2 (b) Minimum Statutory Ratio	**20.0%**	**20.0%**
14.3 (c) Excess (Deficiency) (a-b)	61.6%	63.3%

FINANCIAL HIGHLIGHTS

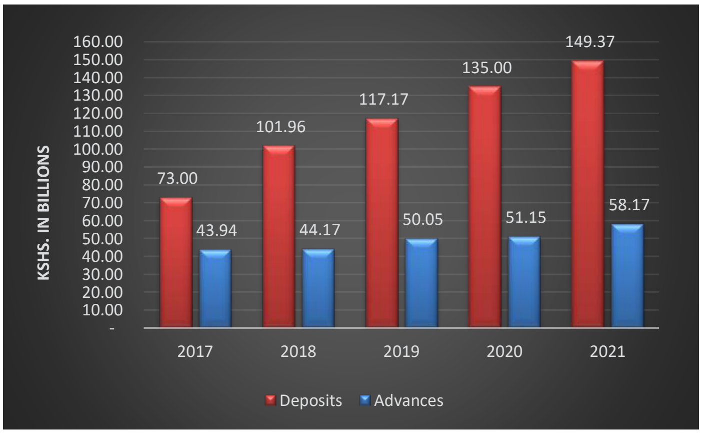
Shareholders' Fund



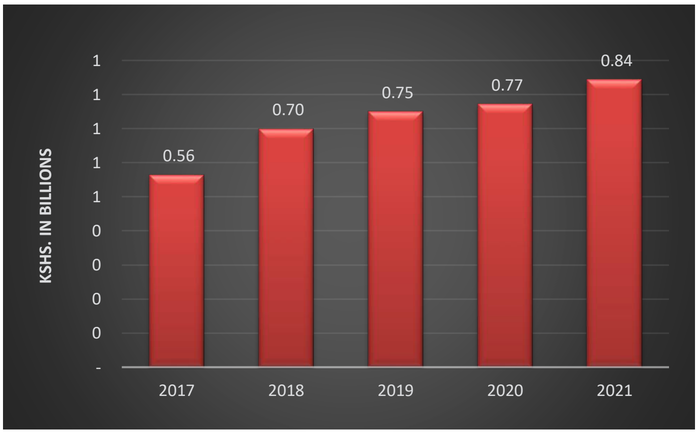
Total Assets



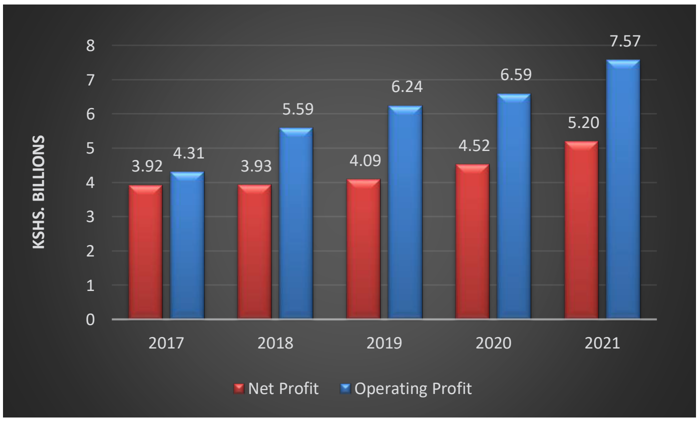
Business Volume



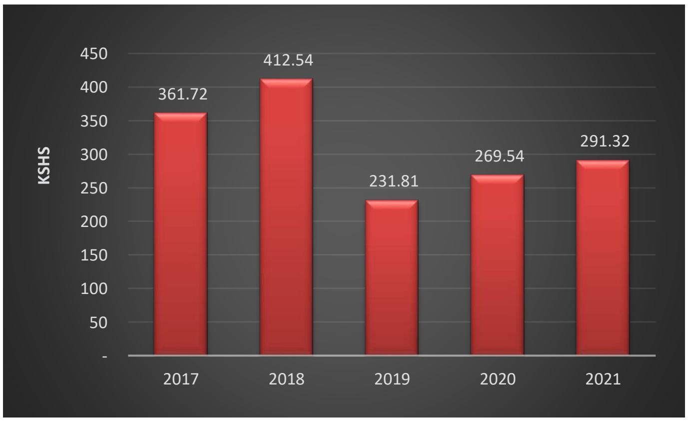
Business Per Employee



Profit Growth



Book Value Per Share



HIGHLIGHTS 2021

Annual General Meeting 2021

Muthithi Road Branch Opening Ceremony

Ribbon cutting ceremony

Plaque inauguration

ACTIVITIES AND EVENTS

Staff promotion celebrations at Head Office

Customer meet at Meru Branch

During a Marketing Camp

Marking Women's Day in style

Bank of Baroda's team during India's 75th Cricket Tournament

Baroda Cricket team after being awarded the trophy

NOTES

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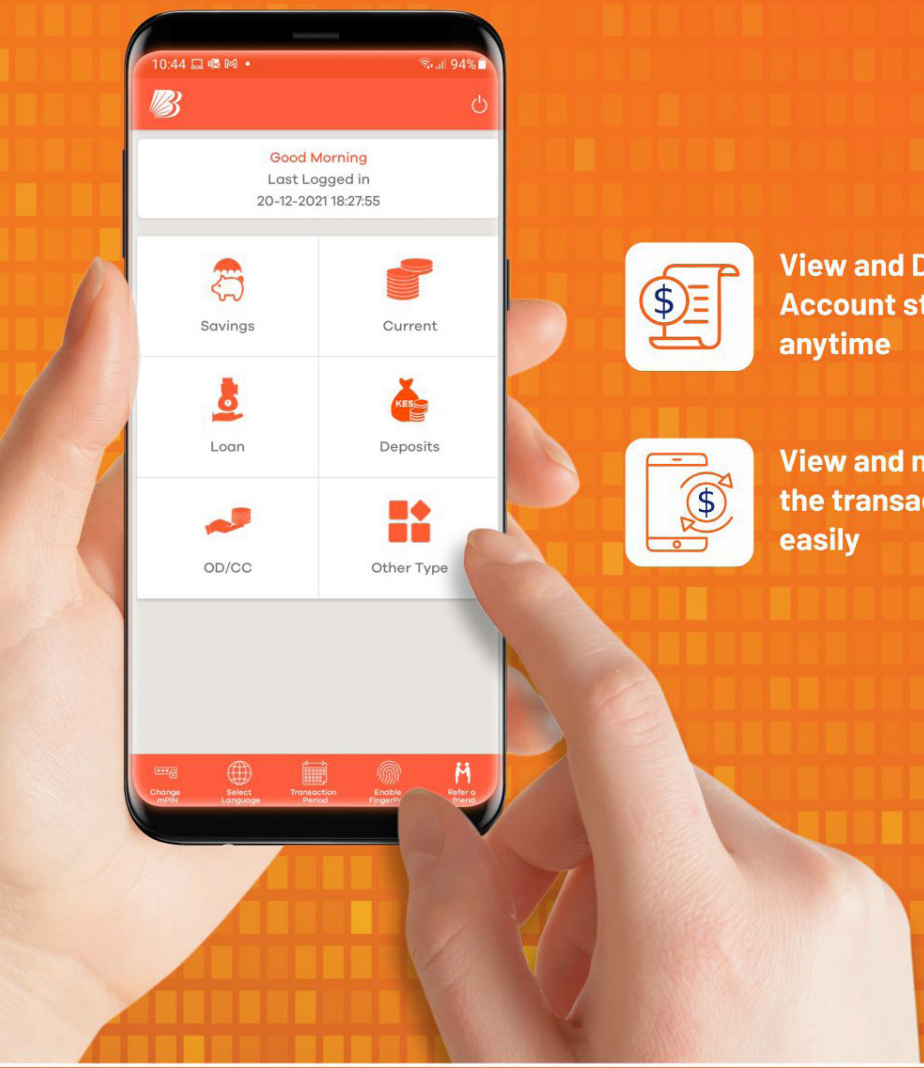

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BANKING AWARDS 2021

Bank of Baroda (Kenya) Ltd.