



MAYFAIR BANK LIMITED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2019**

MAYFAIR BANK LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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MAYFAIR BANK LIMITED

CORPORATE INFORMATION

DIRECTORS

Anjay V. Patel* - Chairman
Bharatkumar V. Shah
Vishal R. Patel
Tom M Gitogo
Mugambi Nandi
Kalpesh R. Patel*
Nadeem I. Ahmed
Ramji D. Varsani
Ashok Labhshanker Doshi (Appointed: 21 August 2019)
Sheila Kyarisiima** (Appointed: 04 September 2019)
Raminder B. Singh (Resigned: 31 May 2019)

* British
**Ugandan

SECRETARY

JLG Maonga
Certified Public Secretary (Kenya)
P O Box 73248 - 00200
Nairobi, Kenya

REGISTERED OFFICE

L R No. 1870/1/553, KAM House, Westlands
P O Box 2051 - 00606, Sarit Centre
Nairobi, Kenya

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092 - 00100 GPO
Nairobi, Kenya

LAWYERS

Coulson Harney LLP
5th Floor West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road
P O Box 10643 - 00100
Nairobi, Kenya

MAYFAIR BANK LIMITED

STATEMENT ON CORPORATE GOVERNANCE

Corporate Governance

Mayfair Bank is keen on entrenching a sound corporate governance culture within its business to ensure transparency and accountability.

The Board of Directors of Mayfair Bank Limited strongly believes that a sound corporate governance framework sets the foundation for sustained growth and maximization of shareholder value.

The Bank has put in place a Code of Conduct and Code of Ethics that binds all its directors and employees to ensure the Bank's business is undertaken with utmost integrity, transparency and in an ethical and fair manner, in keeping with the local and external regulations and global best practices.

Governance Framework

Mayfair Bank Limited is governed by a Board of Directors consisting of 10 members elected by the shareholders. The Board comprises 7 Non-Executive directors and 3 Independent Non-Executive Directors.

The responsibility of the Board is to ensure the strategic direction, management supervision and adequate control of the Bank, with the ultimate goal of increasing the long-term value of the Bank.

The Bank's governance framework includes a vibrant and dynamic risk management framework characterized by active Board and Senior Management oversight, adequate policies, procedures, charters, terms of reference and MIS reporting. These collectively shape the governance of a wide range of issues including risk supervision, compliance, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management.

Clear lines of responsibility, accountability and communication exist within the bank. This includes a continuous chain of supervision at all levels, as well as effective communication channels between the Management and the Board of Directors. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the Bank, providing appropriate incentives to ensure and encourage professional behaviour.

Details of attendance of Board committee and Board meetings for each member are as below:

Directors	No. of meetings attended 2019					
	BCC	BRMC	BAC	BNHRC	BSDC	BOARD
Anjay V. Patel (Chairman)	3/4				3/5	5/5
Bharatkumar V. Shah	4/4			4/4	4/5	4/5
Vishal R. Patel		3/4			5/5	4/5
Tom M Gitogo		4/4	4/4			5/5
Mugambi Nandi	4/4			4/4		4/5
Kalpesh R. Patel			4/4	4/4	4/5	4/5
Nadeem I. Ahmed		4/4			5/5	5/5
Ramji D. Varsani			4/4			5/5
Ashok Labhshanker Doshi (Appointed: 21 August 2019)						1/2
Sheila Kyarisiima (Appointed: 04 September 2019)						1/2
Raminder B. Singh (Resigned: 31 May 2019)	2/2	2/2	2/2	2/2		2/2

* Board Credit Committee – BCC

* Board Strategy & Digital Committee - BSDC

* Board Risk Management Committee – BRMC

* Board Audit Committee – BAC

* Board Nomination and Human Resource Committee - BNHRC

MAYFAIR BANK LIMITED

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Enterprise Risk Management

The primary goal of risk management is to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward, in order to maximize shareholder returns.

The Bank's risk management framework provides the foundation for achieving these goals. This framework is subject to constant evaluation to ensure that it meets the requirements of the markets in which the Bank operates, including regulatory standards and industry best practices.

Arising from our belief that integrating a strong risk and compliance management program into the daily management of business and strategic planning gives the Bank a strategic competitive advantage, we have ensured that our risk management framework is applied enterprise-wide across all our branches and across all our activities.

Risk Management Governance

The Bank's Risk Management Framework is based on best practice, strong corporate governance principles and guided by the Prudential Guidelines (2013) and Risk Management Guidelines (RMGs). The Board also determines the Bank's risk appetite, risk tolerance and strategy, and oversees the implementation of effective risk management systems in the Bank.

Board of Directors

The Board of Directors has the overall responsibility of establishing a sound risk management framework in the Bank. The Board sets the Bank's risk appetite and tolerance levels from time-to-time, and monitors implementation of same by management.

The Board is supported in carrying out its duties by the following committees:

- Board Audit Committee (BAC),
- Board Risk Management Committee (BRMC),
- Board Nomination and Human Resource Committee (BNHRC),
- Board Credit Committee (BCC),
- Board Strategy & Digital Committee (BSDC)

Each of these Board Committees is governed by Board-approved terms of reference. The Board committees report to the Board on a quarterly basis.

Senior Management

The senior management is responsible for overseeing the day to day activities and ensuring these are in line with the approved risk management framework and Board strategy.

Management is supported in carrying out its responsibilities by management committees which provide the vital link between management and directors and serve as important channels of cascading board decisions to management-level staff; and also communicating to directors the activities that management staff are engaged in and the risks therein.

- (i) Asset Liability Management Committee (ALCO)
- (ii) Executive Committee (ExCo),
- (iii) Management Credit Committee (MCC)
- (iv) Operational Risk Management Committee (ORCO).

The management committees are governed by Board-approved terms of reference and report to their respective Board committees on a quarterly basis.

MAYFAIR BANK LIMITED

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Risk Management Philosophy and Risk Appetite

Risk Management Philosophy

Mayfair Bank risk management philosophy recognizes risk management is a value-adding, rather than a regulatory compliance issue.

It is our simple philosophy that:

- we will only take on board risks that we fully understand, and know how to mitigate
- risk management shall be at the heart of whatever we do; that risk management is central to our all our operations
- everybody is a risk manager; we primarily focus on preventive and remedial actions as opposed to fault-finding
- we encourage a risk culture where every staff proactively identifies and manages the risks in their respective areas
- risk management is everybody's business; and not just the Board, Risk & Compliance Dept. and senior management.

Risk Appetite & Risk Tolerance

The Board of Directors determines the bank's risk tolerance, which is the general level of risk that the Bank is willing to take while pursuing its objectives.

Risk tolerance is defined as the level of risk that the Bank is willing to assume per individual risk. Our Board of directors also determines the Bank's Risk tolerance levels across all investing, trading, lending and operational activities.

Our Risk Management Framework

In addition to fulfilling regulatory requirements and adopting best-practice when it comes to risk management, it is the bank's objective to take on an approach in which a risk culture exists amongst all employees of the organization.

The Bank has entrenched an enterprise-wide and integrated approach to risk management that will enable us to consider the potential impact of all types of risks on all processes, activities, stakeholders, products and services and mitigate same.

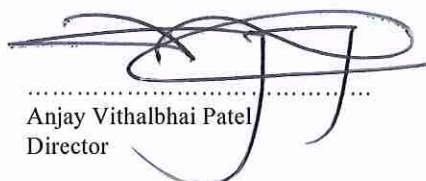
Risk & Compliance Department

- The 'Risk & Compliance Department' is an Independent function reporting to the Board Risk Management Committee.
- The Risk & Compliance Department (R&CD) is a critical part of MBL's risk management framework. Effectively managing risks arising from the Bank's daily business activities maximizes MBL's opportunities in the market and enhances the Bank's competitive position in the industry. Integrating a strong risk and compliance management program into the daily management of business and strategic planning gives the Bank a strategic competitive advantage. It helps the Bank to protect its reputation, lower the cost of capital, reduce costs and helps minimize the risk of investigation, prosecution and penalties.

Internal Audit Department (IAD)

The Internal Audit Department is a critical and integral part of the Mayfair Bank Risk Management Framework.

- It's an independent function within the Bank, separate from Business Divisions, and headed by senior management staff, reports directly to the Board Audit Committee of the Board of Directors.
- Through its reviews and audits, IAD gives independent assurance that the risk management framework and the inherent controls therein are effective and working as intended.


.....
Anjay Vithalbhai Patel
Director


.....
Sheila Kyarisiima
Director

MAYFAIR BANK LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Mayfair Bank Limited (the "Bank") for the year ended 31 December 2019, which disclose its state of affairs in accordance with the Kenyan Companies Act, 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of Banking, financial and related services as licensed under the Banking Act.

FINANCIAL RESULTS

	2019 Sh'000	2018 Sh'000
Loss before taxation	(365,879)	(267,653)
Taxation	-	-
	<hr/>	<hr/>
Loss for the year transferred to accumulated deficit	<u>(365,879)</u>	<u>(267,653)</u>

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: Sh Nil).

BUSINESS REVIEW

Operating Environment

The Bank has been operational for two years and five months as at 31st December 2019.

Below are the key highlights on the Bank's performance for 2019:

	2019 Sh'Million	2018 Sh'Million
Total assets	8,652	6,857
Customer deposits	7,270	5,603
Loans and advances	4,602	3,184
Loss before tax	(366)	(268)
Net interest income	177	105
Non-interest income	78	162

In 2019 there was a general slow down in the levels of economic activities which saw an increase in non-performing loans across the industry.

Repealing of the rate cap which has been in force since September 2016 is expected to ease flow of credit to the private sector. Banks are expected to set their own base lending rates going forward.

MAYFAIR BANK LIMITED

REPORT OF THE DIRECTORS (Continued)

BUSINESS REVIEW (Continued)

Future outlook

The bank's capital and asset base is expected to grow significantly following Mayfair Bank's anticipated partnership with Commercial International Bank (Egypt) which is subject to regulatory approvals. Commercial International Bank is the largest private bank in Egypt, with an asset base of US\$ 25 Billion.

The anticipated capital injection is expected to boost the bank's operational and technological capacity through investment in new systems, products and human resources. This will enable the bank to reach a wider target market and offer a wider range of products, channels and services. The additional capital will also enable the bank to expand its asset base and subsequently enhance profitability.

In November 2019, interest rate capping, which had been in effect since September 2016, was repealed through an amendment to the Banking Act. Interest rate capping had been widely blamed for the private sector's diminished performance and country-wide economic slowdown; since banks had become predisposed to shedding off extra liquidity into government securities which carried higher yields than lending activities.

The Kenyan banking industry is expected to self-regulate when it comes to interest rates, through adoption of risk-based credit pricing models.

In view of this, Mayfair Bank will strive to remain compliant by adopting risk-based pricing, offering competitive lending rates and flexible repayment periods to its customers, in a bid to grow its business and support sustainable economic development.

The bank's management believes that its vision and strategy for the year 2020 will drive growth and profitability, enabling the bank to achieve break-even within the course of the year.

Market Description and Branch Networks

The Bank currently has 5 branches in Nairobi (3), Eldoret (1) and Nyali, Mombasa (1) and over 2,400 customer accounts. Corporates make up 43% of the customer deposits, while retail customers constitute the remaining 57%.

The Bank's loan book is dominated by Corporate Clients, who make up 84% of the loan portfolio by value with the majority being in Wholesale and Retail Trade.

Products and Services

The Bank's products and services are tailor-made to its customers' needs. The Bank recognizes that customers' needs are dynamic and keep changing according to socioeconomic trends and as such, commits to remain relevant to its clientele. The Bank's product and services range from savings accounts, term accounts, loans as well as insurance products. The Bank launched its mobile Banking platform in October 2018 and is desirous about widening its digital channels offerings in 2020.

Risk Management

The Bank has put in place a robust risk management framework, which encompasses strong corporate governance. The bank's risk appetite is determined and approved by the Board. The bank continuously identifies risks it is exposed to, scopes and explains the components of these risks, and employs the relevant mitigation response plans for each risk category. These are clearly communicated to all staff through bank policies and procedures, and periodic trainings.

The year 2019 saw increased regulatory scrutiny as well as emphasis on AML/CFT, credit pricing and transparency, consumer protection and ethical banking practices. In March 2019, the Central Bank mandated all financial institutions to undertake an independent AML/CFT framework audit. On the same month, the Central Bank mandated all commercial banks to adopt the Kenyan Banking Sector Charter which encompasses aspects of ethical banking, consumer protection and risk-based credit pricing. The Charter aims to promote access to credit and financial services for SMEs, to further economic growth within the country.

MAYFAIR BANK LIMITED

REPORT OF THE DIRECTORS (Continued)

Risk Management (Continued)

The Bank will continue to monitor all risks affecting its business to ensure appropriate actions are taken to reduce potential impact.

The bank will also ensure compliance with existing and new regulations issued by the Central Bank and other regulatory authorities.

Refer to note 2 of the financial statements for a description of the Bank's financial risks and how they are mitigated.

AUDITORS

Deloitte & Touche continues in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by the Central Bank of Kenya. The directors monitor the effectiveness, objectivity and independence of the auditors. The directors also approve the annual audit engagement contract, which sets out the terms of the auditors' appointment and the related fees.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

BY ORDER OF THE BOARD



Secretary

Nairobi, Kenya

23 March 2020

MAYFAIR BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the 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 error.

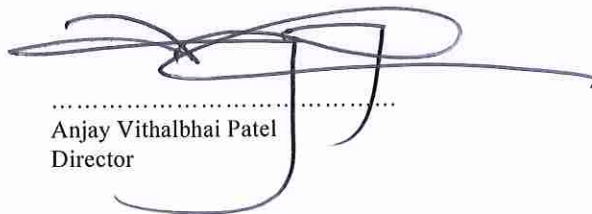
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

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

As disclosed in note 5 to the financial statements, having made an assessment of the Bank's ability to continue as a going concern, the directors are aware of material uncertainties related to events or conditions that may cast doubt upon the Bank's ability to continue as a going concern. In the short term, the Bank has sufficient liquidity to pay its obligations as they fall due. The Bank's business strategy that management and the board have put together is expected to enable it to trade profitably in the near future.

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

Approved by the board of directors on ... 23 March 2020 and signed on its behalf by:


.....
Anjay Vithalbhai Patel
Director


.....
Sheila Kyarisima
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MAYFAIR BANK LIMITED

Report on the Audit of the Financial Statements

We have audited the financial statements of Mayfair Bank Limited, set out on pages 13 to 73 which comprise the statement of financial position as at 31 December 2019, 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 financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

Emphasis of Matter- Bank's financial performance

We draw attention to the disclosure in note 5 to the financial statements which indicates that the Bank incurred a loss before taxation of Sh 365,879,000 during the year ended 31 December 2019 (2018: Sh 267,653,000) and, as of that date, the Bank had accumulated losses amounting to Sh 1,263,985,000 (2018: Sh 898,106,000). Note 5 provides further details on this matter. Our opinion is not modified with respect to this matter.

Other Information

The directors are responsible for the other information, which comprises corporate information, report of the directors, state of corporate governance and the statement of directors' responsibilities. The other information does not include the financial statements and our auditors' report thereon.

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MAYFAIR BANK LIMITED (Continued)

Report on the Audit of the Financial Statements (Continued)

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MAYFAIR BANK LIMITED (Continued)

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

In our opinion the information given in the report of the directors on page 6 to 8 is consistent with the financial statements.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi

23 March 2020

CPA Anne Muraya, Practising certificate No. 1697
Signing partner responsible for the independent audit

MAYFAIR BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019


	Notes	2019 Sh'000	2018 Sh'000
Interest income	7	613,949	348,953
Interest expense	8	(436,633)	(244,249)
Net interest income		177,316	104,704
Fees and commissions		42,537	30,778
Other operating income	9	5	113,268
Foreign exchange income		31,124	18,018
Operating income		250,982	266,768
Administrative expenses	10	(603,742)	(484,237)
Net impairment loss on financial assets		(13,119)	(50,184)
Loss before taxation		(365,879)	(267,653)
Taxation	11(a)	-	-
Loss for the year		(365,879)	(267,653)
Other comprehensive income			
Items that will be reclassified subsequently to income:			
Net unrealized gains on fair value through other comprehensive income	14	2,876	974
Reclassification of net gains on fair value through other comprehensive income to income	14	-	(267)
Total other comprehensive income		2,876	707
Total comprehensive loss for the year		(363,003)	(266,946)

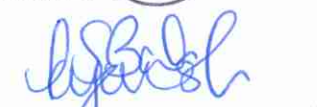
MAYFAIR BANK LIMITED

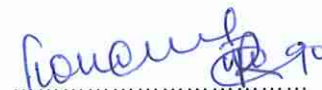
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Notes	2019 Sh'000	2018 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	651,658	528,814
Deposits and balances due from other banks	13	1,300,583	1,632,159
Government securities	14	1,432,366	966,007
Loans and advances to customers	15	4,602,441	3,183,627
Other assets	16	88,209	44,300
Property and equipment	18	297,171	341,793
Intangible assets	19	120,907	159,872
Right of use asset	20	159,140	-
Total assets		8,652,475	6,856,572
LIABILITIES			
Customer deposits	21	7,270,221	5,603,108
Amounts due to other banks	22	22,732	11,589
Lease liability	23 (a)	162,502	-
Other liabilities	23 (b)	157,155	222,007
		7,612,610	5,836,704
SHAREHOLDERS' FUNDS			
Share capital	24	2,300,000	1,917,000
Investment revaluation reserves		3,850	974
Accumulated deficit		(1,263,985)	(898,106)
Shareholders' funds		1,039,865	1,019,868
Total equity and liabilities		8,652,475	6,856,572

The financial statements on pages 13 to 73 were approved by the board of directors on **23 March** 2020 and were signed on its behalf by:


.....
Anjay Vithalbhai Patel
Director


.....
Sheila Kyarisiima
Director


.....
Tom M. Gitogo
Director


.....
JLG Maonga
Company Secretary

MAYFAIR BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital Sh'000	Accumulated deficit Sh'000	Investment revaluation reserve Sh'000	Total Sh'000
At 1 January 2018	1,798,575	(630,453)	267	1,168,389
Issue of share capital	118,425	-	-	118,425
Total other comprehensive income	-	-	707	707
Total comprehensive loss for the year	-	(267,653)	-	(267,653)
At 31 December 2018	<u>1,917,000</u>	<u>(898,106)</u>	<u>974</u>	<u>1,019,868</u>
At 1 January 2019	1,917,000	(898,106)	974	1,019,868
Issue of share capital	383,000	-	-	383,000
Total other comprehensive income	-	-	2,876	2,876
Total comprehensive loss for the year	-	(365,879)	-	(365,879)
At 31 December 2019	<u>2,300,000</u>	<u>(1,263,985)</u>	<u>3,850</u>	<u>1,039,865</u>

The investment revaluation reserve represents the net cumulative surplus arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

MAYFAIR BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 Sh'000	2018 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Reconciliation of loss before taxation to net cash generated from operating activities:			
Loss before taxation		(365,879)	(267,653)
Adjustments for:			
Depreciation of equipment	18	80,879	76,343
Amortisation of intangible assets	19	45,209	43,991
Depreciation of right-of-use assets	20	33,834	-
Impairment loss on financial assets		3,989	50,034
Impairment loss on off balance sheet items		9,130	150
Finance costs - leases	23(a)	19,664	-
<i>Working capital changes:</i>			
Increase in other receivables		(43,910)	(8,513)
Decrease in other payables		(64,852)	(78,708)
Increase in treasury bonds	14	(250,465)	(97,695)
(Increase)/decrease in treasury bills-maturing after 90 days		(470,888)	773,495
Increase in loans and advances to customers		(1,424,209)	(2,996,259)
IFRS 9 day 1 impairment adjustment on opening balance		-	(557)
Increase in cash reserve ratio		(140,133)	(144,581)
Increase in customer deposits		1,667,113	3,522,660
Net cash(used in)/generated from operating activities		(900,518)	872,707
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	18	(39,195)	(35,422)
Purchase of computer software	19	(3,306)	(8,877)
Net cash used in investing activities		(42,501)	(44,299)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		383,000	118,425
Repayment of lease liabilities	23(a)	(45,525)	-
Net cash generated from financing activities		337,475	118,425
Net increase in cash and cash equivalents		(605,544)	946,833
Cash and cash equivalents at beginning of year		2,211,430	1,264,597
Cash and cash equivalents at end of the year		1,605,886	2,211,430
Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes			
Cash and balance with Central Bank of Kenya – other	12	278,989	296,278
Deposits and balances due from Banking institutions	13	1,300,583	1,632,159
Treasury bills – maturing within 90 days	14	49,046	294,582
Amounts due to other banks	22	(22,732)	(11,589)
Cash and cash equivalents at end of the year		1,605,886	2,211,430

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Kenyan Companies Act, 2015.

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

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2019

Impact of initial application of IFRS 16 Leases

In the current year, the Bank for the first time, has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lease accounting by removing the distinction between operating and finance lease requirements and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5 (b). Consequently, the comparative information has not been restated and continues to be reported under IAS 17.

Impact of the new definition of a lease.

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank carried out an assessment of all the lease contracts. The assessment has shown that the new definition in IFRS 16 does not change significantly the scope of contracts that meet the definition of a lease for the Bank.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued)*

Impact of initial application of IFRS 16 Leases (Continued)

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases the Bank:

- i) Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- ii) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- iii) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use-assets are tested for impairment in accordance with IAS 36 impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Bank has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the statement of profit or loss.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lease to a lessor. IFRS 16 requires that the Bank recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Bank's financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from this residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). The amendments on lessor accounting did not have an impact on financial statements of the Bank.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued)

Impact of initial application of IFRS 16 Leases (Continued)

Financial impact of the initial application of IFRS 16

	2019 Shs'000
Impact on profit or loss	
Increase in depreciation of right-of-use asset	33,834
Increase in finance cost	19,664
Decrease in rent expense	(45,525)
	<hr/>
Decrease in loss for the year	<u>(7,973)</u>

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use assets and lease liabilities respectively have not been treated as tax allowable deductions. The application of IFRS 16 has an impact on the statement of cash flows of the Bank. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by Sh 53 million (2018: Sh Nil), being the lease payments, and net cash used in financing activities has increased by Sh 46 million (2018: Sh Nil).

Impact of application of IFRIC 23 Uncertainties over Income Tax Treatments

The Bank has adopted IFRIC 23 for the first time in the current year. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The application of IFRIC 23 had no material impact on the disclosures or on the amounts recognised in the Bank's financial statements.

Impact of application of Annual Improvements to IFRS Standards 2015-2017 Cycle

The Bank has adopted the amendments included in the Annual Improvements to IFRS Standards 2015-2017 cycle. The annual improvements make amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The application of these amendments had no material impact on the disclosures or on the amounts recognised in the Bank's financial statements.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2019.*

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	1-Jan-22
Amendments to IFRS 3 Definition of a business	1-Jan-20
Amendments to IAS 1 and IAS 8 Definition of material	1-Jan-20
Amendments to References to the Conceptual Framework in IFRS standards	1-Jan-20

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted in the next page.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The Directors of the Bank are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Directors of the Bank are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2019. (Continued)*

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

(iii) *Early adoption of standards*

The Bank did not early-adopt any new or amended standards in 2019.

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting as modified to include the revaluation of financial instruments that are measured at fair value or revalued amounts at the end of each reporting period. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year and are as set out below:

Revenue recognition

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within the profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Fees and commissions

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is calculated on the straight line basis at the following annual rates estimated to write off the cost of equipment over its expected useful life.

Leasehold improvements	12.5%
Furniture and fittings	20%
Computer equipment	20%
Office equipment	20%
Motor vehicle	25%
Right of use asset	Dependent on lease period/Estimated useful life of asset

Intangible assets – computer software

Software acquired by the Bank is amortized on a straight-line basis at a rate of 20% per annum.

Offsetting

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

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss.

Employee entitlements

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Retirement benefits

The Bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Bank has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2019, but have not been applied to the comparative information. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Recognition

Financial assets and financial liabilities are recognised in the Bank's statement of financial position sheet when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Classification and Measurement

A. Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

A. Financial Assets (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Debt instruments at amortised cost or at FVTOCI (continued)

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how Banks of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- a. how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- b. the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- c. how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 14.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are remeasured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in not 7 and 6 – Fair value of financial institutions.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

i) Impairment of financial assets

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

With the exception of Purchased Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 2.

The Bank's policy is always to measure loss allowances for lease receivables as lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party. The ECL estimate is presently based on 100% cash conversion factor (CCF) for financial guarantees and letters of credit based on Basel II definition of off-balance sheet items.

The Bank measures ECL on an individual asset basis. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR,

More information on measurement of ECLs is provided in note 2.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

i) Impairment of financial assets (continued)

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

Definition of default

The definition of default (see below) includes unlikelihood to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 2).

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

i) Impairment of financial assets (continued)

Definition of default

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 2. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, 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, based on the Bank's historical experience and expert credit assessment including forward-looking information. See note 2 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- a. the remaining lifetime PD at the reporting date; with
- b. the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

i) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 2).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 2.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Bank considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

i) Impairment of financial assets (continued)

Modification and derecognition of financial assets (continued)

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

i) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see below:

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

B. Financial Liabilities

- it has been incurred principally for the purpose of repurchasing it in the near term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
 - it is a derivative that is not designated and effective as a hedging instrument.
- A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank’s documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or
 - it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘net income from other financial instruments at FVTPL’ line item in the profit or loss account.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the “net interest income section” above.

Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Bank recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Bank recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Bank. Modification gains are presented in ‘other income’ and modification losses are presented in ‘other expenses’ in the profit or loss account.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer’s default. These obligations are accounted for as transactions off the statement of financial position and disclosed as contingent liabilities.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income.

Leases

The Bank assesses whether a contract is or contains a lease at inception of the contract. The Bank recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

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 comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in 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 the lease payments made.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Leases (continued)

The Bank re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases 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 floating interest rate, in which case a revised discount rate is used).
- a lease contract is 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 lease payments using a revised discount rate.

The Bank did not make any such adjustments during the years presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They 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. 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. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Comparatives

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

2 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk

2 FINANCIAL RISK MANAGEMENT (Continued)

Introduction and overview (Continued)*Risk management framework*

The Board Risk and Compliance and the Board Audit Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

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

a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

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

Credit risk management

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

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

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Credit risk management (Continued)

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

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

As explained in note 1 the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Bank's exposures:

The internal audit function performs the following:-

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower. The table below provides a mapping of the Bank's internal credit grades.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Internal credit risk ratings (Continued)

Bank's credit risk grades	Description IAS 39	Description IFRS 9
Grade 1	Normal risk	Stage 1
Grade 2	Watch risk	Stage 2
Grade 3	Substandard risk	Stage 3
Grade 4	Doubtful risk	Stage 3
Grade 5	Loss	Stage 3

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Bank generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Bank performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Incorporation of forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019:

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

Base Case

Year	Industry NPL	Predicted Change % from Model
2018	12.70%	0.00%
2019	14.25%	8.72%
2020	14.61%	2.58%
2021	15.28%	4.53%
2022	15.69%	2.71%
<i>Allocated Weight</i>		<i>65.70%</i>

Worst Case

Year	Industry NPL	Predicted Change % from Model
2018	12.70%	0.00%
2019	18.45%	24.45%
2020	21.95%	19.01%
2021	26.75%	21.85%
2022	31.63%	18.26%
<i>Allocated Weight</i>		<i>17.15%</i>

Best Case

Year	Industry NPL	Predicted Change % from Model
2018	12.70%	-0.00%
2019	10.59%	-7.02%
2020	9.12%	-13.86%
2021	7.95%	-12.79%
2022	6.93%	-12.84%
<i>Allocated Weight</i>		<i>17.15%</i>

Probability Weighted Results

Year	Forecast Change	Management Overlay	Change to PD	Unscaled Change
2019	8.72%	0	8.72%	8.72%
2020	2.58%	0	2.58%	2.58%
2021	4.53%	0	4.53%	4.53%
2022	2.71%	0	2.71%	2.71%

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

The weights result in adjusted PD's and the summarised scenarios below which are arrived by assigning 100% weights to each of the scenarios:

	ECL estimate 31 December 2019 Sh'000
Worst case scenario	82,444
Base case scenario	66,247
Best case scenario	61,956

Measurement of ECL

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities and overdraft facilities that include drawn and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis

The key inputs used for measuring ECL are:

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

Probability of Default:

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

In this case, the Bank does not have the benefit of the time horizon. After matching the Bank's sectors to the CBK sectors, the NPL ratio for each sector in the CBK report was obtained and assigned to the matched the Bank's sectors. The 12-month PDs were then modelled by taking these NPL ratios and weighting them using predictions from the CBK credit survey report on changes (rose, fell, remained unchanged) in sectorial NPL's.

The CBK credit survey report is a quarterly report that provides quarterly updates on the banking sector and the economy. Within the report is a summary of predictions of whether the NPL ratio for different sectors will rise, fall or remain unchanged as determined by different banks in the industry.

These three scenarios rise, fall and remain unchanged form the basis of the worst, best and base case scenarios respectively. The base scenario (remain unchanged) applies a 0% impact as this is possibility of no change in the sector NPL ratio. The impact of the worst case and base case scenarios occurring is based on the weighted average quarterly change in the prediction of the NPL ratios rising or falling, respectively, in the different sectors (weights are applied based on the NPL balance per sector).

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Probability of Default (continued)

Life time PDs were modelled by applying a growth/ decline factor to the 12-month PD. The factor is determined by taking the banking sector NPL ratios for the last three years, using weights, to project the NPL ratios for the next 4-5 years through a trend analysis and applying the year on year change in the NPL ratio as a growth/decline factor to the 12-month PD to obtain the lifetime year 1 PD.

Finally, a macroeconomic adjustment is applied onto the PD from the output of the multivariate regression analysis. Multivariate regression analysis is carried out by taking the year-on-year (Y-O-Y) change banking industry NPL ratio from 2002 to 2018 and regressing it against the Y-OY change in various macroeconomic factors with the source information being from Oxford economics.

Loss given default

Loss given Default (LGD) is the magnitude of the likely loss if there is a default. This is computed as the loss the bank would experience after considering the discounted value of all possible cash flows that can be obtained from the borrower. The bank considers various forms of collateral in making this determination. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts and time to realisation of collateral. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Exposure at Default:

Exposure at default (EAD) is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios. The ECL is computed on an annual basis, hence a rundown of the current outstanding balance to nil is calculated to determine the EAD at these annual points.

Maximum exposure to credit risk before collateral held

The Bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Bank's management reviews information on significant amounts.

The Bank's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors.

The credit risk on amounts due from Banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya is limited because the counterparties are Banks, the governments and corporations with high credit ratings.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Maximum exposure to credit risk before collateral held

The amount that best represents the Bank's such exposure to credit risk, at the end of the reporting period is made up as follows:

	2019 Sh'000	2018 Sh'000
Cash and balances with Central Bank	651,658	528,814
Deposits due from banking institutions	1,300,583	1,632,159
Government securities	1,432,366	966,007
Loans and advances	4,602,441	3,183,627
	<hr/>	<hr/>
Total	7,987,048	6,310,607
	<hr/> <hr/>	<hr/> <hr/>

Classification of loans and other receivables

Stage 1 assets

The Bank classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

Stage 2 assets

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and/or the stage of collection of amounts owed to the Bank. These loans are categorised as watch (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines.

Stage 3 assets

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed. However, the amounts involved are insignificant.

Allowances for impairment

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

Write-off policy

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

Collateral held

The Bank holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at 31 December 2019 (2018: nil).

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and receivables to customers:	2019	2018
	Sh'000	Sh'000
Stage 3 assets		
Property	92,350	-
Other	124,000	-
Stage 2 assets		
Property	861,140	130,000
Other	314,023	9,300
Stage 1 assets		
Property	5,393,700	7,906,492
Other	8,144,271	2,004,222
Total	<u>14,929,484</u>	<u>10,050,014</u>

The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Collateral held (Continued)

	Percentage of Exposure that is subject to collateral requirements		Type of Collateral held
	31 December 2019	31 December 2018	
Loans and advances to banks	-	-	
Mortgage lending	100%	100%	Property
Personal lending	100%	100%	Property, equipment & insurance bonds
Corporate lending	100%	100%	Property equipment, Stock, insurance bonds

The Bank holds collateral to mitigate against the credit risk of its financial instruments. Accordingly, where the forced sale value of the collateral is higher than the total credit risk exposure for any financial instrument, after the consideration of the time to realisation of the collateral, no loss allowance is recognised at 31 December 2019. There was no change in the Bank's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets is listed above.

Credit quality

Concentrations of risk

The Bank monitors concentrations of credit risk by sector. Details of significant concentrations of the Bank's assets, liabilities and items off the statement of financial position by industry are as detailed below:

	2019 Sh'000	2019 %	2018 Sh'000	2018 %
(i) Advances to customers				
Agriculture	4,088	0%	-	-
Building and Construction	577,427	12%	435,459	13%
Business Services	274,725	6%	454,031	14%
Electricity and Water	33,825	1%	46,219	1%
Finance and Insurance	306,917	7%	168,349	5%
Manufacturing	410,774	9%	166,227	5%
Mining and Quarrying	190,725	4%	211,573	7%
Other Activities and Enterprises	259,550	6%	134,007	4%
Real Estate	291,512	6%	427,615	13%
Personal/Household	833,692	18%	344,413	11%
Transport & Communication	543,540	12%	519,203	16%
Wholesale and Retail Trade	930,132	20%	326,982	11%
	<u>4,656,907</u>	<u>100%</u>	<u>3,234,078</u>	<u>100%</u>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Credit quality (Continued)

Concentrations of risk (Continued)

(ii) Customer Deposits	2019	2019	2018	2018
	Sh'000	%	Sh'000	%
Non-profit institutions and individuals	4,593,800	63%	3,111,036	56%
Private enterprises	2,484,320	34%	2,253,806	40%
Insurance companies	192,101	3%	225,478	4%
Others	-	-	12,788	0%
	<u>7,270,221</u>	<u>100%</u>	<u>5,603,108</u>	<u>100%</u>
(iii) Off balance sheet items				
Building and Construction	156,197	52%	42,900	71%
Electricity and Water	-	-	12,033	20%
Finance and Insurance	4,081	1%	3,000	5%
Manufacturing	21,593	7%	-	-
Other Activities and Enterprises	47,115	16%	555	1%
Real Estate	-	-	500	1%
Wholesale and Retail Trade	60,247	20%	1,723	3%
Transport and Communication	11,093	4%	-	-
	<u>300,326</u>	<u>100%</u>	<u>60,711</u>	<u>100%</u>

An analysis of the Bank's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2019			31 December 2018	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans and advances to customers at amortised cost	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Grade 1: Normal	4,207,548	-	-	4,207,548	3,202,074
Grade 2: Watch	-	383,970	-	383,970	32,004
Grade 3: Substandard	-	-	34,749	34,749	-
Grade 4: Doubtful	-	-	30,640	30,640	-
Grade 5: Loss	-	-	-	-	-
Total gross carrying amount	4,207,548	383,970	65,389	4,656,907	3,234,078
Loss allowance	(40,698)	(9,443)	(4,325)	(54,466)	(50,451)
Carrying amount	4,166,850	374,527	61,064	4,602,441	3,183,627

This table summarises the loss allowance as of the year-end by class of exposure/asset.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Credit quality (Continued)

Concentrations of risk (Continued)

Financial statement line	31 December 2019	31 December 2018
	IFRS 9 Sh'000	IAS 39 Sh'000
Loans at amortized cost	54,466	50,451
Placements	2,602	2,431
Off Balance Sheet - Guarantees and LCs	9,084	189
Off Balance Sheet - OD's	95	57
Total allowance for credit losses	66,247	53,128

The tables below analyses the movement of the loss allowance during the year per class of assets.

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL Sh'000	Lifetime ECL Sh'000	Lifetime ECL Sh'000	
Loss allowance- Loans and advances to customers at amortised cost				
Loss allowance as at 1 January 2019	50,357	94	-	50,451
Changes in the loss allowance				
-Transfer to stage 1	-	-	-	-
-Transfer to stage 2	(9,349)	9,349	-	-
-Transfer to stage 3	(4,325)	-	4,325	-
New financial assets originated or purchased	5,560	-	-	5,739
Financial assets that have been derecognised	(1,545)	-	-	-
Loss allowance as at 31 December 2019	40,698	9,443	4,325	54,466

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value.

The carrying amount of the Bank's financial assets at FVTPL best represents the assets' maximum exposure to credit risk.

The tables below analyse the movement of the gross carrying amount during the year per class of assets:

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL Sh'000	Lifetime ECL Sh'000	Lifetime ECL Sh'000	
Gross carrying amounts- Loans and advances to customers at amortised cost				
Gross carrying as at 1 January 2019	3,202,074	32,004	-	3,234,078
Changes in the loss allowance				
-Transfer to stage 1	-	-	-	-
-Transfer to stage 2	(253,578)	253,578	-	-
-Transfer to stage 3	(66,769)	-	65,389	-
New financial assets originated or purchased	2,437,727	-	-	-
Financial assets that have been derecognised	(1,013,518)	-	-	-
Gross carrying amounts as at 31 December 2019	4,305,936	285,582	65,389	4,656,907

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Credit quality (Continued)

Concentrations of risk (Continued)

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status:

Loans and advances to customers

	Gross Sh'000'	Net Sh'000'
31 December 2019		
IFRS 9 Stage 1 (0- 30 days)	4,305,936	4,265,238
IFRS 9 Stage 2 (31- 90 days)	285,582	276,139
IFRS 9 Stage 3(Over 90 days)	65,389	61,064
	<u>4,656,907</u>	<u>4,602,441</u>
31 December 2018		
IFRS 9 Stage 1 (0- 30 days)	3,202,074	3,151,717
IFRS 9 Stage 2 (31- 90 days)	32,004	31,910
IFRS 9 Stage 3(Over 90 days)	-	-
	<u>3,234,078</u>	<u>3,183,627</u>

b) Liquidity risk

The Bank is exposed to the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to Banks and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

	2019	2018
At 31 December	45.6%	54.6%
Average for the period	44.6%	80.9%
Maximum for the period	52.2%	123.4%
Minimum for the period	36.9%	50.5%

Residual contractual maturities of financial liabilities

The table below analyses the Bank's financial assets and financial liabilities into the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 Years Sh'000	Over 5 years Sh'000	Total Sh'000
At 31 December 2019						
FINANCIAL ASSETS						
Cash and balances with Central Bank	328,697	174,915	148,066	-	-	651,658
Deposits and balance due from banking institutions	1,099,605	200,978	-	-	-	1,300,583
Government securities	-	49,046	878,358	250,465	254,497	1,432,366
Loans and advances	65,992	302,546	1,367,271	2,151,387	715,245	4,602,441
Total financial assets	1,494,294	727,485	2,393,675	2,401,852	969,764	7,987,048
FINANCIAL LIABILITIES						
Customer deposits	969,731	3,412,324	2,888,166	-	-	7,270,221
Deposits and balance due to banking institutions	22,732	-	-	-	-	22,732
Total financial liabilities	992,463	3,412,234	2,888,166	-	-	7,292,953
Net liquidity gap	501,831	(2,684,839)	(494,490)	2,401,852	969,741	694,095

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Residual contractual maturities of financial liabilities (Continued)

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Sh'000
At 31 December 2018						
Total financial assets	1,656,386	1,086,030	1,550,195	1,175,389	845,038	6,313,038
Total financial liabilities	1,222,802	1,986,256	2,405,639	-	-	5,614,697
Net liquidity gap	433,584	(900,226)	(855,444)	1,175,389	845,038	698,341

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

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

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

The Bank's Risk and Compliance Department is responsible for the development of detailed market risk management policies and for the day to day implementation of those policies.

i. Interest rate risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Bank's exposure to changes in interest rates and liquidity.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

i. Interest rate risk (Continued)

Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Risk and Compliance Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
At 31 December 2019							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	651,658	651,658
Deposits and balance due from Banking institutions	1,054,882	200,978	-	-	-	44,723	1,300,583
Government securities	-	49,046	878,358	250,465	254,497	-	1,432,366
Loans and receivables to Customers	4,602,441	-	-	-	-	-	4,602,441
Total financial assets	5,657,323	250,024	878,358	250,465	254,497	696,381	7,987,048

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

i. Interest rate risk (Continued)

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Net interest bearing Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Customer deposits	356,671	3,412,324	2,888,166	-	-	613,060	7,270,221
Deposits and balance due to Banking institutions	22,732	-	-	-	-	-	22,732
Total financial liabilities	379,403	3,412,324	2,888,166	-	-	613,060	7,292,953
Interest sensitivity gap	741,471	(2,859,754)	(642,537)	2,401,852	969,742	83,321	694,095
At 31 December 2018							
Total financial assets	4,026,085	771,803	425,404	272,595	250,647	566,504	6,313,038
Total financial liabilities	1,222,802	1,986,256	2,405,639	-	-	-	5,614,697
Interest sensitivity gap	2,803,283	(1,214,453)	(1,980,235)	272,595	250,647	566,504	698,341

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

i. Interest rate risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

Interest rate risks – Increase/Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2019.

	Amount Sh'000 31 December 2019	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest margin
Loss before taxation	(365,879)	(348,147)	(383,610)
Adjusted Core Capital	1,036,015	1,053,746	1,018,283
Adjusted Total Capital	1,036,015	1,053,746	1,018,283
Risk Weighted Assets (RWA)	5,836,904	5,836,904	5,836,904
Adjusted Core Capital to RWA	17.75%	18.05%	17.45%
Adjusted Total Capital to RWA	17.75%	18.05%	17.45%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2019 by Sh 17.73 million. Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 18.05% and 18.05% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 17.45% and 17.45% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

ii. Foreign exchange risk

The Bank operates in Kenya and its assets and liabilities are carried in Kenya shilling. The Bank maintains trade with correspondent Banks and takes deposits and lends in foreign currencies. The Bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The table below summarises the Bank's exposure to foreign exchange rate risk as at 31 December. Included in the table are the Bank's financial instruments at carrying amounts categorised by currency.

MAYFAIR BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

ii. Foreign exchange risk (Continued)

Concentrations of currency risk on financial instruments on and off the statement of financial position:

	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
At 31 December 2019						
FINANCIAL ASSETS						
Cash and balance with Central Banks	540,456	94,230	11,911	4,972	90	651,658
Government securities	1,432,366	-	-	-	-	1,432,366
Deposit and balances due from banking institutions	1,063,978	197,142	11,966	25,889	1,608	1,300,583
Loans and advances to customers	3,556,409	1,046,032	-	-	-	4,602,441
Total financial assets	6,593,209	1,337,403	23,877	30,861	1,698	7,987,048
FINANCIAL LIABILITIES						
Customer deposits	6,199,350	1,040,736	24,769	5,366	-	7,270,221
Deposit due to Banking institutions	-	-	-	22,732	-	22,732
Total financial liabilities	6,199,350	1,040,736	24,769	28,098	-	7,292,953
Net on statement of financial position	393,859	296,667	(892)	2,763	1,698	694,095
Off balance sheet position	211,164	348,551	-	44,661	-	604,376
At 31 December 2018						
Total financial assets	4,708,944	1,555,970	37,578	23,978	2,136	6,310,607
Total financial liabilities	4,101,765	1,449,558	38,384	24,990	-	5,614,697
Net on statement of financial position	607,179	106,412	(806)	(1,012)	2,136	695,910
Off balance sheet position	48,955	115,321	-	-	-	164,275

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

ii. Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/Depreciation of KSh against other currencies by 10%.

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The Currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which the Bank's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2019.

Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

	31 December 2019 Amount Sh' 000	Scenario 1 10% appreciation Sh' 000	Scenario 2 10% depreciation Sh' 000
Loss before taxation	(365,879)	(335,855)	(395,902)
Adjusted Core Capital	1,036,015	1,066,038	1,005,991
Adjusted Total Capital	1,036,015	1,066,038	1,005,991
Risk Weighted Assets (RWA)	5,836,904	5,836,904	5,836,904
Adjusted Core Capital to RWA	17.75%	18.26%	17.24%
Adjusted total Capital to RWA	17.75%	18.26%	17.24%

Assuming no management actions, a series of such appreciation would increase earnings for 2019 by Sh 30.02 million, while a series of such falls would decrease earning for 2019 by Sh 30.02 million. Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 18.26% and 18.26% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 17.24% and 17.24% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

iii. Fair value of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

iii. Fair value of financial assets and liabilities (Continued)

Financial instruments measured at fair value (Continued)

Determination of fair value and fair values hierarchy (Continued)

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

This note provides information about how the Bank determines fair values of various financial assets.

Fair value of the Bank's financial assets and liabilities that are measured at fair value on a recurrent basis

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2019 Sh'000	2018 Sh'000				
Treasury bonds available for sale (note 14)	504,962	250,647	Level 1	Quoted prices in an active market	N/A	N/A

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2019

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Treasury bonds available for sale (note 14)	504,962	-	-	504,962
Total	504,962	-	-	504,962

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 FINANCIAL RISK MANAGEMENT (Continued)

iii. Fair value of financial assets and liabilities (Continued)

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2018				
Treasury bonds available for sale (note 14)	250,647	-	-	250,647
Total	250,647	-	-	250,647

There were no transfers between levels 1, 2 and 3 in the year ended 31 December 2019.

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

3 CAPITAL MANAGEMENT

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by our regulators within the markets that the Bank operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Bank may incur in adverse market scenarios during the course of its business

Regulatory capital

The Bank's objective when managing regulatory capital is broadly covered as follows:

Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK).

Both CBK largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.
- Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

Kenya

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Banks and certain other regulatory items.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

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

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Bank to maintain;

- A minimum level of regulatory capital of Shs 1 billion.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10.50%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Bank has complied with all externally imposed capital requirements throughout the period.

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

The Bank's regulatory capital position at 31 December was as follows:

As per Central Bank of Kenya:

	2019 Sh'000'	2018 Sh'000'
Tier 1 capital		
Ordinary share capital	2,300,000	1,917,000
Retained earnings	(1,263,985)	(898,106)
	<hr/>	<hr/>
Total	1,036,015	1,018,894
	<hr/>	<hr/>
Tier 2 capital		
Revaluation reserve	-	-
	<hr/> <hr/>	<hr/> <hr/>
Total regulatory capital	1,036,015	1,018,894
	<hr/> <hr/>	<hr/> <hr/>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

	2019 Sh'000'	2018 Sh'000'
Risk-weighted assets		
On balance sheet items	4,904,774	3,942,066
Off balance sheet items	281,908	68,470
Market risk	442,148	251,462
Operational risk	208,074	41,345
	<hr/>	<hr/>
Total Risk-weighted assets	5,836,904	4,303,343
	<hr/> <hr/>	<hr/> <hr/>
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)	17.75%	23.67%
	<hr/> <hr/>	<hr/> <hr/>
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.50%)	17.75%	23.67%
	<hr/> <hr/>	<hr/> <hr/>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The risk weighted assets are as follows:

ON – BALANCE SHEET ASSETS	2019			2018		
	Amount Sh'000'	Weight	Risk Weighted Sh'000'	Amount Sh'000'	Weight	Risk Weighted Sh'000'
Cash (including foreign notes and coins)	87,835	-	-	89,291	-	-
Balances with Central Bank of Kenya	563,823	-	-	439,523	-	-
Treasury bills	927,404	-	-	715,360	-	-
Treasury bonds	504,962	-	-	250,647	-	-
Deposits and balances due from local institutions	1,270,104	0.2	254,021	1,089,906	0.2	217,980
Deposits and balances due from foreign institutions	30,479	0.2	6,096	542,253	0.2	108,451
Lending fully secured by cash	601,350	-	-	101,369	-	-
Loans and receivables Secured by residential property	43,722	0.5	21,861	25,177	0.5	12,589
Other loans and receivables (net of provisions)	3,957,369	1	3,957,369	3,057,081	1	3,057,081
Fixed Assets (net of depreciation)	577,218	1	577,218	501,665	1	501,665
Other assets	88,209	1	88,209	44,300	1	44,300
TOTAL	8,652,475		4,904,774	6,856,572		3,942,066
OFF BALANCE SHEET ASSETS						
Transactions Secured by Cash	79,228	-	-	14,734	-	-
Local Financial Institutions	304,050	0.2	60,810	101,340	0.2	20,268
Others	221,098	1	221,098	48,202	1	48,202
Total	604,376		281,908	164,276		68,470

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

Capital allocation

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

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

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

i) Critical accounting judgements in applying the Bank's policies

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

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

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

i) Critical accounting judgements in applying the Bank's policies (continued)

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

ii) Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by the directors in determining useful lives for property and equipment as well as intangible assets.

Fair value measurement and valuation

Some of the Bank's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the Bank uses market – observable data to the extent it is available. Where level 1 inputs are not available, the Bank engages third party qualified valuers to perform the valuation.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

ii) Key sources of estimation uncertainty (Continued)

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash generating unit to which the asset belongs.

Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security. The Bank uses its own judgement in determination of appropriate IBR to apply.

Assessment of whether a right-of-use asset is impaired.

There exists uncertainty in assessing whether the Bank's right of use asset is impaired.

5 BANK'S FINANCIAL PERFORMANCE

The Bank incurred a loss before tax of Sh 365,879,000 during the year ended 31 December 2019 (2018: Sh 267,653,000) and as at that date it had an accumulated deficit of Sh 1,263,985,000 (2018: Sh 898,106,000).

The Bank had operated for two years and 5 months as at 31 December 2019 and during this time, it has distinguished itself through delivery of value to its clients has developed tailor made products such as premium and elite accounts that meet and exceed customer expectations. The Bank is also offering its clients competitive lending rates in foreign currency and flexible repayment period in bid to grow its business.

There is an anticipated capital injection once partnership deal with Commercial International Bank (Egypt) is approved by regulatory authorities. This is expected to boost the bank's operational and technological capacity through investment in new systems, products and human resources. This will enable the bank to reach a wider target market and offer a wider range of products, channels and services. The additional capital will also enable the bank to expand its asset base and subsequently enhance profitability.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

	2019	2018
	Sh'000	Sh'000
6 LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging:		
Employment costs	269,164	213,340
Depreciation (note 18)	80,879	76,343
Depreciation right of use asset (note 20)	33,834	-
Amortization (note 19)	45,209	43,991
Audit fees	4,200	4,950
Directors' emoluments - fees	7,964	4,443
	=====	=====

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000	2018 Sh'000
7	INTEREST INCOME	
	459,513	167,175
	55,481	131,660
	30,973	5,636
	67,982	44,482
	<u>613,949</u>	<u>348,953</u>
8	INTEREST EXPENSE	
	436,488	244,244
	145	5
	<u>436,633</u>	<u>244,249</u>
9	OTHER OPERATING INCOME	
	-	2,535
	-	110,733
	5	-
	<u>5</u>	<u>113,268</u>
10	ADMINISTRATIVE EXPENSES	
	a) Operating and administrative expenses	
	269,164	213,340
	7,964	4,443
	80,879	76,343
	33,834	-
	45,209	43,991
	37,611	34,943
	-	27,271
	14,455	13,475
	4,200	4,950
	27,631	17,054
	8,020	6,520
	11,665	8,322
	6,225	2,953
	3,704	2,779
	4,474	3,395
	7,196	7,049
	49	-
	2,500	-
	2,158	1,450
	1,578	1,126
	2,339	1,898
	2,140	3,161
	5,999	8,258
	5,084	1,516
	19,664	-
	<u>603,742</u>	<u>484,237</u>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 ADMINISTRATIVE EXPENSES (Continued)

b) Staff costs

	2019 Sh'000	2018 Sh'000
Salaries and allowances	235,895	190,254
Insurance	5,086	4,254
NSSF contribution	182	147
Pension contribution	9,290	7,581
Leave pay provision	747	(2,385)
Medical expense	15,147	11,060
Other	2,817	2,429
	<u>269,164</u>	<u>213,340</u>

11 TAXATION

(a) Taxation credit

Deferred tax credit (note 25)	-	-
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(b) Reconciliation of taxation credit to expected tax based on accounting loss

Loss before taxation	<u>(365,879)</u>	<u>(267,653)</u>
Tax at the applicable rate of 30%	(109,764)	(80,296)
Tax effect of expenses not deductible for tax purposes	(219,980)	(139,094)
Deferred tax asset not recognised (note 25)	329,744	219,390
	<u>-</u>	<u>-</u>

12 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Cash in hand	87,835	89,291
Balances with the Central Bank of Kenya – other – available for use by the bank	<u>191,154</u>	<u>206,987</u>
	278,989	296,278
– cash reserve ratio	<u>372,669</u>	<u>232,536</u>
	<u>651,658</u>	<u>528,814</u>

The cash reserve ratio requirement is non-interest bearing and is based on the customer deposits with the Bank as adjusted by the Central Bank of Kenya requirements. At 31 December 2019 the cash reserve ratio requirement for Kenya was 5.25% of all customer deposits. These funds are not available for the day to day operations of the bank.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000	2018 Sh'000
13	DEPOSITS AND BALANCES DUE FROM OTHER BANKS	
	1,084,195	1,092,337
Due from local Banking institutions	218,990	542,253
Due from foreign Banking institutions	<u>1,303,185</u>	<u>1,634,590</u>
Less: impairment loss allowance	(2,602)	(2,431)
	<u>1,300,583</u>	<u>1,632,159</u>

The weighted average effective interest rate at 31 December 2019 for deposits due from Banking institutions was (LCY – 7.73%, FCY – 1.49%) (2018 LCY – 8.05%, FCY – 2.30%).

	2019 Sh'000	2018 Sh'000
14	GOVERNMENT SECURITIES	
	Treasury bills at amortised cost	
	49,046	294,582
Maturing within 90 days of the end of the reporting period	878,358	420,778
Maturing after 90 days of the end of the reporting period	<u>927,404</u>	<u>715,360</u>
Face value	1,000,000	750,000
Less: unearned discount	(72,596)	(34,640)
	<u>927,404</u>	<u>715,360</u>
	Treasury bonds at fair value through OCI	
At 1 January	250,647	152,245
Additions	250,465	249,673
Disposals	-	(151,978)
Gains reclassified from OCI to income	-	(267)
Fair value gain	3,850	974
	<u>504,962</u>	<u>250,647</u>
At 31 December	504,962	250,647
	The government securities are analysed as follows:	
Treasury bills at amortised cost	927,404	715,360
Treasury bonds at fair value through OCI	504,962	250,647
	<u>1,432,366</u>	<u>966,007</u>

Treasury bills and bonds are debt securities issued by the Governments of Kenya and are classified as held to maturity and available for sale. The weighted average effective interest rate on treasury bills at 31 December 2019 was 9.72% (2018 – 9.86%) and the rate for the treasury bonds was 11.72% (2018 – 11.95%).

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000	2018 Sh'000
15	LOANS AND ADVANCES TO CUSTOMERS	
	a) Loans and advances	
	856,624	475,115
Overdrafts	343,667	278,003
Instalment sale and finance leases	3,337,643	2,383,103
Term loans	43,722	25,177
Mortgages	60,087	60,839
Other loans and advances	15,164	11,841
Interest receivable	<u>4,656,907</u>	<u>3,234,078</u>
	(54,466)	(50,451)
Less: impairment loss allowance	<u>4,602,441</u>	<u>3,183,627</u>

The weighted average effective interest rate on LCY loans and receivables to customers as at 31 December 2019 was 12.59% (2018 – 12.45%). The weighted average effective interest rate on LCY overdrafts as at 31 December 2019 was 12.37% (2018 – 12.24%). The weighted average effective interest rate on asset financing as at 31 December 2019 was 13% (2018 – 13%).

The weighted average effective interest rate on FCY loans and receivables to customers as at 31 December 2019 was 8.70% (2018 – 8.37%). The weighted average effective interest rate on FCY overdrafts as at 31 December 2019 was 9.38% (2018 – 8.05%).

b) Analysis of gross advances by maturity:

	2019 Sh'000'	2018 Sh'000'
Maturing within one month	67,755	169,292
Maturing within 90 days	310,545	233,902
Maturing after 90 days and within one year	1,377,943	1,029,580
Maturing after one to five years	2,900,664	1,801,304
	<u>4,656,907</u>	<u>3,234,078</u>

16 **OTHER ASSETS**

Security deposits	12,320	6,606
Prepayments	34,972	15,798
Other receivables	40,917	21,896
	<u>88,209</u>	<u>44,300</u>

17 **RELATED PARTY TRANSACTIONS AND BALANCES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placements at 31 December 2019 include placements made in the bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2019 include loans and advances to companies associated to directors, employees of the bank and, also deposits held with related parties respectively.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The table below outlines these balances as included in the loans and advances and deposits balances at year end:

	Directors' associated companies		Employees/staff	
	2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
Movement in related party balances was as follows:				
<i>Loans and advances:</i>				
At 1 January	513,308	80,050	43,959	959
Net movement during the year	305,018	438,258	25,934	43,000
At 31 December	818,326	518,308	69,893	43,959
Interest earned	76,066	37,756	4,258	779
<i>Deposits:</i>				
At 1 January	2,674,934	1,077,132	31,677	37,556
Net movement during the year	539,235	1,597,802	6,007	(5,879)
At 31 December	3,214,169	2,674,934	37,684	31,677
Interest paid	241,831	110,215	2,075	1,388
Letters of Credit & Guarantees	22,118	-	-	-

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2019 Sh'000	2018 Sh'000
Key management salaries and other benefits	109,117	104,510
Directors emoluments	7,964	4,443

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of the individuals and market trends.

Other transactions with related parties

	2019 Sh'000	2018 Sh'000
Amount due to Copy Cat Ltd	50,579	141,869
Payments during the year to Copy Cat Ltd	125,404	97,574

The transactions with Copy Cat Ltd relate to sale of IT infrastructure, comprehensive support services for IT systems (Enterprise and Networking) and IT security upgrade for the Bank.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 PROPERTY AND EQUIPMENT

Cost	Leasehold Improvements Sh'000'	Motor vehicles Sh'000'	Furniture, and fittings Sh'000'	Computer equipment Sh'000'	Office equipment Sh'000'	Capital work in progress* Sh'000'	Total Sh'000'
At 1 January 2018	138,645	6,900	21,156	66,455	207,226	1,490	441,872
Additions	9,847	-	1,998	1,575	1,259	20,743	35,422
Disposals	-	-	-	-	-	-	-
Reclassifications	-	-	(4,455)	-	(6,093)	-	(10,548)
Transfer from work in progress	-	-	-	-	-	(521)	(521)
At 31 December 2018	148,492	6,900	18,699	68,030	202,392	21,712	466,225
At 1 January 2019	148,492	6,900	18,699	68,030	202,392	21,712	466,225
Additions	17,350	-	2,639	2,046	9,869	7,291	39,195
Disposals	-	-	-	-	-	-	-
Transfer from work in progress	-	-	-	212	-	(3,150)	(2,938)
At 31 December 2019	165,842	6,900	21,338	70,288	212,261	25,853	502,482
Depreciation							
At 1 January 2018	7,735	2,580	1,761	6,371	33,686	-	52,133
Charge for the year	17,433	1,725	3,548	13,484	40,153	-	76,343
Eliminated on disposal	-	-	(520)	-	(3,524)	-	(4,044)
At 31 December 2018	25,168	4,305	4,789	19,855	70,315	-	124,432
At 1 January 2019	25,168	4,305	4,789	19,855	70,315	-	124,432
Charge for the year	19,555	1,725	4,020	13,918	41,662	-	80,879
At 31 December 2019	44,723	6,030	8,809	33,772	111,977	-	205,311
Net book value							
At 31 December 2019	121,119	870	12,529	36,516	100,284	25,853	297,171
At 31 December 2018	123,324	2,595	13,910	48,175	132,077	21,712	341,793

* Capital work in progress relates to anti-money laundering software whose implementation had not been completed as at year end.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000'	2018 Sh'000'
19 INTANGIBLE ASSETS		
Computer software		
Cost		
At 1 January and 31 December	225,524	205,578
Additions	3,306	8,877
Reclassifications	-	10,548
Transfer from Work in progress (note 18)	2,938	521
	<u>231,768</u>	<u>225,524</u>
Amortisation		
At 1 January	65,652	17,618
Reclassifications	-	4,043
Charge for the year	45,209	43,991
	<u>110,861</u>	<u>65,652</u>
Net book value		
At 31 December	<u>120,907</u>	<u>159,872</u>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 RIGHT-OF-USE ASSET

The Bank leases office space and IT equipment for its use. Information about the leases in which the Bank is a lessee is presented below:

COST	2019	2019	2019
	Sh'000'	Sh'000'	Sh'000'
	Office space	IT Equipment	Total
At 1 January as previously reported	-	-	-
Adjustment on adoption of IFRS 16	105,251	-	105,251
Additions/lease asset recognized	30,068	57,655	87,723
	<hr/>	<hr/>	<hr/>
At 31 December	135,319	57,655	192,974
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January	-	-	-
Charge for the year	22,303	11,531	33,834
	<hr/>	<hr/>	<hr/>
At 31 December	22,303	11,531	33,834
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31 December	113,016	46,124	159,140
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amounts recognised in profit and loss			
Depreciation expense on right-of-use assets	22,303	11,531	33,834
Interest expense on lease liabilities	13,083	6,581	19,664
	<hr/>	<hr/>	<hr/>
At 31 December	35,386	18,112	53,498
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Bank is not committed to any arrangements that are short term as at year end.

The total cash outflow for leases amount to Sh 46 million (2018: NIL).

There are no restrictions or covenants imposed by lessors and the Bank did not enter into any sale and leaseback transactions during the year (2018: Nil)

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000	2018 Sh'000
21	CUSTOMER DEPOSITS	
	687,485	822,664
Current and call deposits	226,781	151,332
Savings accounts	6,355,955	4,629,112
Fixed deposits	<u>7,270,221</u>	<u>5,603,108</u>

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2019 denominated in local and foreign currencies was 8.39% and 3.48% 2018 (8.87% and 2.96%) respectively.

	2019 Sh'000	2018 Sh'000
22	AMOUNTS DUE TO OTHER BANKS	
	-	-
Due to local Banking institutions	22,732	11,589
Due to foreign Banking institutions	<u>22,732</u>	<u>11,589</u>

23 (a)	LEASE LIABILITIES	
	143,359	-
Undiscounted future minimum lease payment under operating lease at 1 January	(41,298)	-
Impact of discounting	-	-
Leases not yet commenced at 1 January	<u>102,061</u>	<u>-</u>
At 1 January	<u>102,061</u>	<u>-</u>

The movement in the lease liabilities is as follows:

	102,061	-
Balance at 1 January	(45,525)	-
Payment of lease liabilities	19,664	-
Interest on lease liabilities	86,302	-
Additions/lease asset recognized	<u>162,502</u>	<u>-</u>
At 31 December	<u>162,502</u>	<u>-</u>
	29,420	-
Amounts due for settlement within 12 months	133,082	-
Amounts due for settlement after 12 months	<u>162,502</u>	<u>-</u>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) LEASE LIABILITIES (Continued)

Maturity Analysis	2019 Sh'000	2018 Sh'000
Year 1	48,414	-
Year 2	46,905	-
Year 3	58,599	-
Year 4	60,560	-
Year 5	34,277	-
Above 5 years	14,253	-
	<u>263,008</u>	<u>-</u>

The Bank does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Bank's treasury function. The lease obligations for the office space are denominated in Kenya Shillings while the lease obligation for the IT equipment is denominated in US dollars.

23 (b) OTHER LIABILITIES

Outstanding Bankers cheques	1,224	3,491
Leave pay provision	5,896	5,149
Funds received pending share allotment	-	23,000
Other payables and accruals	141,524	190,367
Provision for asset removal	4,611	-
Provision for revaluation loss on swaps	3,900	-
	<u>157,155</u>	<u>222,007</u>

24 SHARE CAPITAL

	2019 Sh'000	2018 Sh'000
Authorised:		
2,300,000 ordinary shares of Sh 1,000 each (2018:2,000,000)	<u>2,300,000</u>	<u>2,000,000</u>
Issued and fully paid:		
2,000,000 ordinary shares of Sh 1,000 each (2018:1,917,000)	2,000,000	1,917,000
Paid but not issued:		
Deposit paid for shares	300,000	-
	<u>2,300,000</u>	<u>1,917,000</u>

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 DEFERRED TAXATION

Deferred taxation is calculated on all temporary differences under the liability method using the enacted rate of 30%.

	2019 Sh'000'	2018 Sh'000'
The net potential deferred taxation asset is made up as follows:		
Excess depreciation over capital allowances	(32,605)	(39,210)
Tax losses carried forward	337,629	241,117
Provision for non-performing loans	19,874	15,938
Leave pay provision	1,769	1,545
Provision for asset removal under IFRS 16	1,383	-
Provision for general expense	524	-
Deferred tax asset not recognised (note 11)	(328,574)	(219,390)
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

The potential net deferred tax asset has not been recognised in these financial statements because of the uncertainty regarding the Bank's ability to generate sufficient taxable profits in the foreseeable future to enable it utilise its tax loss within the allowable statutory limit. The directors consider it prudent not to recognise any deferred tax asset until such a time as the Bank will be able to generate sufficient taxable profits.

26 INCORPORATION

The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015.

27 CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS

	2019 Sh'000	2018 Sh'000
Letters of guarantee	225,295	48,955
Letters of credit	75,031	13,981
Foreign exchange swap contracts	304,050	101,340
	<u> </u>	<u> </u>
	604,376	164,276
	<u> </u>	<u> </u>

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.

MAYFAIR BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Sh'000	2018 Sh'000
28 CAPITAL COMMITMENTS		
Authorised and contracted for	-	20,203
Authorised but not contracted for	54,870	-

29 EVENTS AFTER THE REPORTING PERIOD

The Board of Directors approved the financial statements on 23 March 2020 and authorised that the financial statements be issued. On this date, the Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the bank and results of its operations as laid out in these financial statements other than the issue below;

On Monday, March 16, 2020, the Central Bank of Kenya (CBK) announced a set of measures that commercial Banks will undertake in order to alleviate the adverse economic effects, banking customers may face from the Coronavirus pandemic (COVID-19). These measures include extension of loans for a period of up to one year and restructuring of loans. The Bank is required to meet all the costs related to the extension and restructuring of loans. It is anticipated that these measures may impact the Bank's profitability for the year ended 31 December 2020 in respect of administration costs and modification losses arising from IFRS 9 requirements. The Bank is however unable to quantify the impact of these measures announced by the Central Bank of Kenya.

30 CURRENCY

The financial statements are presented in Kenya Shillings (Sh), which is also the Bank's functional currency.