

**GULF AFRICAN BANK LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**AT**  
**31 DECEMBER 2022**

# **GULF AFRICAN BANK LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022**

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# **GULF AFRICAN BANK LIMITED**

## **DIRECTORS AND STATUTORY INFORMATION**

### **BOARD OF DIRECTORS**

Mr Rafik Nayed*	Chairman
Mr Abdalla Abdulkhalik	Executive Director
Mr Admassu Tadesse**	
Mr Ahmed Bajaber	
Mr Junaid Rahimullah***	
Ms Jyoti Patel	
Mrs Nawaal Salim	
Mr Richard Showell****	
Mr Zayed Rashid Al Amin*****	

\*Swiss    \*\*Ethiopian    \*\*\*Pakistani    \*\*\*\*British    \*\*\*\*\*Bahraini

### **SECRETARY**

Mrs Amina Bashir  
Geminia Insurance Plaza  
Kilimanjaro Avenue  
Upper Hill  
PO Box 43683 – 00100  
Nairobi

### **SHARI'AH SUPERVISORY BOARD**

Prof Mohamed Salim Badamana	Chairman
Mufti Ahmed Suliman	
Dr Mohammed Burhan Arbouna	

### **INDEPENDENT AUDITOR**

KPMG Kenya  
Certified Public Accountants  
8<sup>th</sup> Floor, ABC Towers  
Waiyaki Way  
PO Box 40612 – 00100  
Nairobi

### **REGISTERED OFFICE**

Geminia Insurance Plaza  
Kilimanjaro Avenue  
Upper Hill  
PO Box 43683 – 00100  
Nairobi

## **GULF AFRICAN BANK LIMITED**

### **STATEMENT ON CORPORATE GOVERNANCE**

Corporate governance relates to the processes, systems, practices and procedures that govern organisations and the manner in which these rules and regulations are applied and followed. These processes and practices are aimed at maintaining and increasing shareholder value simultaneously with the satisfaction of other stakeholders in the context of the organisation's corporate mission.

#### **The Board of Directors**

##### **Governance principles**

The Board of Directors is composed of the Chairman, Executive, and Non-Executive Directors, all of whom have extensive business and banking experience applied in the management of the Bank. The Board meets every quarter to review the Bank's performance against the business plan in addition to formulating and implementing the Bank's strategy.

The Central Bank of Kenya Prudential Guidelines require that appointment of all directors must be approved by Central Bank, a requirement that the Bank has complied with.

The Board has delegated authority for the conduct of the day to day business to the Chief Executive Officer (CEO). However, the Board retains responsibility for establishing and maintaining the Bank's overall internal control of financial, operational and compliance issues.

The Board has three main functional committees (Audit, Credit and Risk Management) which meet at least quarterly with the main functions outlined below. These are supported by Management committees charged with implementing various decisions of the Board.

All the Bank's Directors and employees adhere to the principles of the Code of Conduct in all of their dealings on behalf of the Bank. The code of conduct ensures that all our actions are in the overall best interests of the Bank and reflects our commitment to maintaining the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Board ensures that accountability is enhanced through a system of objective goal setting for all employees and periodic performance appraisals, which cuts across all levels of staff. In addition, the Board has delegated financial and other powers with clearly defined responsibilities on each matter. The Board also emphasizes on high levels of efficiency and effectiveness. This is made possible by ensuring that the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. On the other hand, the human resource policy stipulates a purely merit based reward system, which encourages staff members to exceptionally carry out their duties in excellence.

All the Directors are committed to act honestly and in the best interests of the Bank. The Board also ensures that the Directors' personal interests do not conflict with their duty to the Bank and to all the stakeholders.

## GULF AFRICAN BANK LIMITED

### STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

#### **Board and Management Committees**

Tabulated below are Board and Management committees, their composition and membership, functions and the frequency of meetings in 2022.

	<b>Board Credit Committee</b>	<b>Board Audit Committee</b>	<b>Board Risk Management Committee</b>	<b>Management Credit Committee (MCC)</b>	<b>Assets and Liabilities Committee (ALCO)</b>	<b>Human Resources Committee (HRC)</b>	<b>Management Executive Committee (EXCO)</b>
<b>Composition &amp; Membership</b>	Composed of four Non –Executive Directors	Composed of three Non –Executive Directors	Composed of three Non – Executive Directors	Composed of the CEO, Head of Finance, Head of Legal and Head of Credit	Composed of the CEO, Head of Finance, Head of Risk, Head of Credit and Head of Treasury	Composed of the CEO, Head of Human Resources, Head of Finance, Head of Legal and Chief Operating Officer	Composed of the CEO, Head of Finance, Head of Risk, Head of Legal, Head of Human Resources and Chief Operating Officer
<b>Chairman</b>	Mr Junaid Rahimullah	Ms Jyoti Patel	Mrs Nawaal Salim	Mr Anuj Mediratta	Mr Anuj Mediratta	Mr Anuj Mediratta	Mr Anuj Mediratta
<b>Members</b>	Mr Admassu Tadesse Mr Ahmed Bajaber Mr Rafik Nayad	Mr Junaid Rahimullah Mr Zayed Al Amin	Mr Richard Showell Mr Zayed Al Amin	Mr Isaak Ibrahim Mr Washington Kathurima Mrs Amina Bashir	Mr Isaak Ibrahim Mr Benjamin Adeya Mr Washington Kathurima Mr Omar Abdalla	Ms Lul Musa Mr Isaak Ibrahim Mrs Amina Bashir Mr Joseph Nyaga	Mr Isaak Ibrahim Mr Benjamin Adeya Mrs Amina Bashir Ms Lul Musa Mr Joseph Nyaga
<b>Frequency of meetings</b>	Quarterly	Quarterly	Quarterly	Weekly	Monthly	Quarterly	Bi-monthly

## GULF AFRICAN BANK LIMITED

### STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

<b>Board Credit Committee</b>	<b>Board Audit Committee</b>	<b>Board Risk Management Committee</b>	<b>Management Credit Committee (MCC)</b>	<b>Assets and Liabilities Committee (ALCO)</b>	<b>Human Resources Committee (HRC)</b>	<b>Management Executive Committee (EXCO)</b>
<ul style="list-style-type: none"> <li>Direct, monitor and review all aspects that will impact upon present and future credit risk management at the Bank</li> <li>Approve credit facilities in excess of management credit committee limits</li> <li>Ensure compliance with Banking Act and Prudential Guidelines</li> <li>Conduct financing arrangement reviews independent of any person or committee responsible for sanctioning credit;</li> <li>Ensure that the credit policy and financing limits are reviewed at least on an annual basis as and when the environment so dictates;</li> </ul>	<ul style="list-style-type: none"> <li>Review the structure and adequacy of internal controls</li> <li>Review the activities and scope of Internal Audit department and assess its effectiveness</li> <li>Review and coordinate between External Auditors and Internal Audit department</li> <li>Ensure that the Bank's financial statements are prepared in a timely and accurate manner and to review and recommend the same for approval by the board of directors.</li> <li>Receive and review internal and external audit reports and put in place measures to implement recommendations therein</li> </ul>	<ul style="list-style-type: none"> <li>Review the adequacy and effectiveness of the Bank's enterprise risk management framework</li> <li>Ensure the risk controls and/or limits as defined by the Board are incorporated in the Bank's business control structure</li> <li>Consider and recommend to the Board of Directors for approval the Bank's risk appetite</li> <li>Oversee the Bank's processes and policies for determining risk appetite and review management's measurement and comparison of overall risk tolerance. As appropriate, confirm risk tolerance levels and capital targets and limits are within approvals given.</li> <li>Review the Bank's risk profile and monitoring</li> <li>Review the Bank's compliance with laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>Ensure compliance with internal policies and procedures and the prudential guidelines in all financing activities</li> <li>Ensure the credit policies are clear and comprehensive and are communicated throughout the Bank, implemented, monitored and revised periodically to address any changes.</li> <li>Approve facilities within limits delegated by the board credit committee</li> <li>Monitor problem exposures and management of watch accounts.</li> <li>Review adequacy of provisioning</li> </ul>	<ul style="list-style-type: none"> <li>Liquidity management</li> <li>Maturity gap management</li> <li>Determining the investment strategies of the Bank for maximization of risk adjusted returns over the long term</li> <li>Counterparty and settlements risk management</li> <li>Currency risk management</li> <li>Profit rate management</li> </ul>	<ul style="list-style-type: none"> <li>Developing HR policies and procedures</li> <li>Defining staff development needs and designing intervention strategies</li> <li>Advising the Board on HR related strategic issues</li> <li>Ensuring that HR strategies are aligned with, support and promote the Bank's strategy for all Business Divisions and Support Functions.</li> <li>Regularly reviewing overall HR requirements of the Bank and recommending to the Board measures aimed at attracting, motivating, developing and retaining talent.</li> </ul>	<ul style="list-style-type: none"> <li>Preparation and review of the Bank's vision, mission, core values, strategic objectives, financial plans and key policies of the Bank, to be submitted for approval of the Board of Directors as necessary</li> <li>Review any issues that warrant policy changes or impact on the overall strategy of the Bank raised by any of the committees such as ALCO, MCC and HRC</li> <li>Review and benchmark the Bank's financial performance and position</li> <li>Provide a platform for discussing various difficulties faced by the business units and recommend suggestions/innovations to enhance efficiency and performance</li> </ul>

<b>Board Credit Committee</b>	<b>Board Audit Committee</b>	<b>Board Risk Management Committee</b>	<b>Management Credit Committee (MCC)</b>	<b>Assets and Liabilities Committee (ALCO)</b>	<b>Human Resources Committee (HRC)</b>	<b>Management Executive Committee (EXCO)</b>
<ul style="list-style-type: none"> <li>– Ensure that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;</li> <li>– Delegate and review financing limits to the sanctioning arms of the Bank</li> <li>– review the quality of the Bank's facility portfolio, and ensure adequate provisions for non-performing accounts in compliance with requirements of the prudential guidelines.</li> <li>– maintain overall accountability and authority for the adequacy and appropriateness of all aspects of the Bank's credit risk management process</li> </ul>	<ul style="list-style-type: none"> <li>– Review the risk areas of the Bank's operations covered in the scope of internal and external audits</li> <li>– Review the adequacy, reliability and accuracy of financial information provided by management</li> </ul>	<ul style="list-style-type: none"> <li>– Review the effectiveness of the compliance function to ensure compliance with all applicable legal and regulatory requirements, at least annually.</li> <li>– Review the findings of any examinations by regulatory agencies and any material correspondence with such agencies.</li> </ul>	<ul style="list-style-type: none"> <li>– Approving the on-boarding of insurers, valuers, rent collecting agencies and auditors into the Bank's panel of service providers and review their performance.</li> </ul>		<ul style="list-style-type: none"> <li>– Reviewing and recommending to the Board the Bank's compensation structure and incentive schemes</li> <li>– Reviewing and assessing risks arising from the Bank's compensation policies and practices</li> <li>– Ensuring measures are in place to enhance the Bank's engagement with employees in order to improve staff morale and productivity</li> </ul>	<ul style="list-style-type: none"> <li>– Considering projects with capital expenditures in excess of budgets designated by the Board of Directors, and submitting them for approval by the Board</li> <li>– Reviewing the respective authority levels for the various businesses and operations, as specified in the Authorities Manual</li> <li>– Managing and setting a balance between the Bank's short and long-term objectives</li> </ul>



## **GULF AFRICAN BANK LIMITED**

### **STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)**

#### **Board meetings attendance**

The Central Bank of Kenya Prudential Guidelines require that every Board member attend a minimum of 75% of all Board meetings. Below is an extract from the attendance register for the Board meetings held in 2022.:

<b>Names/date</b>	<b>10 March 2022</b>	<b>30 June 2022</b>	<b>15 September 2022</b>	<b>8 December 2022</b>
Mr Rafik Nayed	Yes	Yes	Yes	Yes
Mr Abdalla Abdulkhalik	Yes	Yes	Yes	Yes
Mr Admassu Tadesse	Yes	Yes	Yes	Yes
Mr Ahmed Bajaber	Yes	Yes	Yes	Yes
Mr Junaid Rahimullah	Yes	Yes	Yes	Yes
Ms Jyoti Patel	Yes	Yes	Yes	Yes
Mrs Nawaal Salim	Yes	Yes	Yes	Yes
Mr Richard Showell	Yes	Yes	Yes	Yes
Mr Zayed Rashid Al Amin	Yes	Yes	Yes	Yes

#### **Board performance evaluation**

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board of Directors is responsible for ensuring that a rigorous evaluation is carried out of its performance, and of its committees and individual Directors. This evaluation is conducted annually, and the results are provided to the Central Bank of Kenya.



## **REPORT OF THE SHARI'AH SUPERVISORY BOARD**

### **TO MEMBERS OF GULF AFRICAN BANK LIMITED** **FOR THE YEAR ENDED 31 DECEMBER 2022**

بسم الله الرحمن الرحيم

We have conducted our review to form an opinion as to whether Gulf African Bank Limited has complied with Shari'ah rules and principles and with the rulings set out by the Shari'ah Supervisory Board of the Bank.

The responsibility for ensuring that the Bank conducts its business in accordance with Islamic Shari'ah rules and principles is solely that of management of the Bank. It is the Shari'ah Supervisory Board's responsibility to form an independent opinion, based on the review of the operations of the Bank and report to you.

We conducted our review, which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'ah rules and principles.

In our opinion, based on our review, the contracts, transactions and dealings entered into by the Bank during the year as presented for review were generally in compliance with Shari'ah rules and principles.

In line with the available information and disclosures that were presented by the Bank's management, the statement of financial position reviewed by the Shari'ah Supervisory Board is compliant with Islamic Shari'ah principles and Shari'ah Supervisory Board resolutions. The accuracy of the information and data provided representing the Bank's assets, liabilities, equity of investment account holders (depositors), and shareholders' equity are the responsibility of the Bank's management.

The Shari'ah Supervisory Board believes that the financial statements for the year ended 31 December 2022 along with the distribution of profit to depositors had been prepared in conformity with the Islamic Shari'ah regulations.

The relevant portions of income resulting from non-compliant transactions has not been considered as revenue for the bank and has been channelled to charity account under the Supervision of Shari'ah Supervisory Board.

#### **Zakah information**

Zakah is calculated on the Zakah base of the Bank in accordance with Financial Accounting Standard (FAS) 9 Zakah, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), using the net invested funds method. The Zakah information has been provided in the appendix to the Bank's financial statements for the year ended 31 December 2022.

May Allah Almighty bless us with the best *tawfeeq* to accomplish these cherished tasks, make us successful in this world and the hereafter, and forgive our mistakes.



Prof. Mohamed Salim Badamana  
**Chairman – Shari'ah Supervisory Board**

Date: 9 March 2023

**GULF AFRICAN BANK LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2022. The report discloses the state of affairs of Gulf African Bank Limited (the “Bank”).

**1. Principal activities**

The principal activities of the Bank are provision of banking, financial, and related services. The Bank offers a range of Shari’ah compliant solutions for both individual and business customers.

**2. Results**

The results for the year are set out on page 14.

**3. Dividend**

The Directors do not recommend the payment of a dividend (2021 – Nil).

**4. Directors**

The Directors who served during the year and up to the date of this report are set out on page 1.

**5. Business overview**

The overall results for the year ended 31 December 2022 reflect an increase in overall performance compared to 2021 with the Bank making a profit after tax of KShs 555,104,000 (2021 – KShs 444,060,000), which represents a 25% rise, mainly as a result of increased revenues, reduced cost of funds as well as reduced operating expenses in the year. Consequently, profit before tax increased from the previous year to close at KShs 826,748,000 as at 31 December 2022 (2021 – KShs 687,472,000). Total operating income increased by 12.6% to KShs 3,299,227,000 from KShs 2,930,992,000 in 2021, with net funded income increasing by 10.0% to KShs 2,462,000,000 (2021 – KShs 2,238,717,000) while all other non-funded income rose by 20.9% to KShs 837,227,000 (2021 – KShs 692,275,000).

Operating expenses, comprising of staff costs, other operating expenses, amortisation and depreciation, declined by 3.0% to KShs 1,994,917,000 from the KShs 2,056,933,000 recorded in 2021. The decline in other operating expenses is mainly attributed to decreases in security costs, marketing costs, ATM costs, legal and other professional fees as well as information technology related expenses. Consequently, profit before impairment provisions and taxes rose to KShs 1,304,310,000 compared to KShs 874,059,000 in the year 2021, which was 39.5% of operating income (2021 – 29.8%).

The performance of the Bank in 2022 was on the backdrop of the continued COVID-19 pandemic, geopolitical challenges, and the heightened inflationary pressures.

Since the Bank’s customers were impacted by the pandemic, the Bank restructured various facilities with customers in order to support them navigate through the economic disruptions. The restructure of facilities includes extension of repayments and moratorium for certain periods. The Bank will continue to work with customers to offer them the necessary relief.

# **GULF AFRICAN BANK LIMITED**

## **REPORT OF THE DIRECTORS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. Business overview (Continued)**

The ongoing war in Eastern Europe and the resultant Geo-political tensions, inflationary pressures in prices of commodities as well as the persisting COVID-19 pandemic in parts of the world has led to increased estimation uncertainty in the preparation of the financial statements. The Bank has made various estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022 and which the Bank believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The principal risks and uncertainties facing the Bank include credit risk, liquidity risk, market risks, operational risks and settlement risk. The Bank has mitigation plans and strategies for these risks as detailed in Note 5 of these financial statements.

### **6. Consolidation of subsidiary**

The Directors of the Bank made a decision not to prepare consolidated financial statements. In the opinion of the Directors, the operations of the subsidiary are considered immaterial in relation to those of the Bank, and therefore the subsidiary results are not included in these financial statements at the reporting date.

The financial statements of the Bank do not include its subsidiary, GAB Takaful Insurance Agency as at 31 December 2022.

### **7. Relevant audit information**

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

- There is no relevant audit information of which the Bank's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

### **8. Auditor**

The Bank's auditor, KPMG Kenya, has expressed its willingness to continue in office in accordance with Section 719 of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Kenyan Banking Act (Cap.488).

### **9. Approval of financial statements**

The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 9 March 2023

**BY ORDER OF THE BOARD**

  
**Company Secretary**  
Mrs Amna Bashir

Date: 9 March 2023

## **GULF AFRICAN BANK LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for the preparation and presentation of the financial statements of Gulf African Bank Limited set out on pages 14 to 78 which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

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

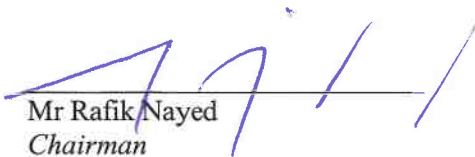
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan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

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

The Directors have assessed the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not be a going concern for at least the next twelve months from the date of this statement.

#### **Approval of the financial statements**

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on **9 March 2023** and were signed on its behalf by:

  
Mr Rafik Nayed  
Chairman

  
Ms Jyoti Patel  
Director

  
Mrs Amina Bashir  
Company Secretary

Date: **9 March 2023**



**KPMG Kenya**  
**Certified Public Accountants**  
8th Floor, ABC Towers  
Waiyaki Way  
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Nairobi, Kenya

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Email [info@kpmg.co.ke](mailto:info@kpmg.co.ke)  
Website [www.kpmg.com/eastafrica](http://www.kpmg.com/eastafrica)

## **INDEPENDENT AUDITOR'S REPORT** **TO THE SHAREHOLDERS OF GULF AFRICAN BANK LIMITED**

### **Report on the audit of the financial statements**

#### ***Opinion***

We have audited the financial statements of Gulf African Bank Limited (the "Bank") set out on pages 14 to 78 which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Gulf African Bank Limited as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Kenyan Companies Act, 2015.

#### ***Basis for opinion***

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

#### ***Other information***

The Directors are responsible for the other information. The other information comprises the information included in the *Gulf African Bank Limited Annual Report and Financial Statements at 31 December 2022* but does not include the financial statements and our auditor's 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, other than that prescribed by the Kenyan Companies Act, 2015 as set out below.

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, 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 AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF GULF AFRICAN BANK LIMITED  
(CONTINUED)**

**Report on the audit of the financial statements (Continued)**

***Directors' responsibilities for the financial statements***

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

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

***Auditor's responsibilities for the audit of the financial statements***

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

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

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



**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF GULF AFRICAN BANK LIMITED  
(CONTINUED)**

**Report on the audit of the financial statements (Continued)**

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

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

**Report on other legal and regulatory requirements**

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit that the information given in the report of the directors on pages 8 and 9 is consistent with the financial statements.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Maurice Gachuhi – P/2699.*

*Maurice M. Gachuhi*

*For and on behalf of:*

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

**Date:** *23 March 2023*



## GULF AFRICAN BANK LIMITED

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
Income from financing and investing activities	8	3,105,025	2,912,738
Income paid to depositors	9(a)	( 512,616)	( 480,630)
Income paid for financing liabilities	9(b)	( 130,409)	( 193,391)
<b>Net profit income</b>		<b>2,462,000</b>	<b>2,238,717</b>
Fee and commission income	10	490,459	469,715
Fee and commission expense	10	( 20,235)	( 14,699)
<b>Net fee and commission income</b>		<b>470,224</b>	<b>455,016</b>
Foreign exchange income		303,191	232,018
Other income		<u>63,812</u>	<u>5,241</u>
<b>Operating income</b>		<b><u>3,299,227</u></b>	<b><u>2,930,992</u></b>
Staff expenses	11(a)	(1,131,768)	(1,152,003)
Other operating expenses	11(b)	( 661,015)	( 690,536)
Amortisation	19	( 57,698)	( 59,463)
Depreciation	20	( 144,436)	( 154,931)
<b>Operating expenses</b>		<b><u>(1,994,917)</u></b>	<b><u>(2,056,933)</u></b>
<b>Operating profit before impairment losses and taxation</b>		<b>1,304,310</b>	<b>874,059</b>
Impairment loss on financial assets	15(b), 16(b)	( 477,562)	( 186,587)
<b>Profit before tax</b>	12	<b>826,748</b>	<b>687,472</b>
Income tax expense	13(a)	( 271,644)	( 243,412)
<b>Profit for the year</b>		<b>555,104</b>	<b>444,060</b>
Other comprehensive income, net of income tax		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>555,104</u></b>	<b><u>444,060</u></b>

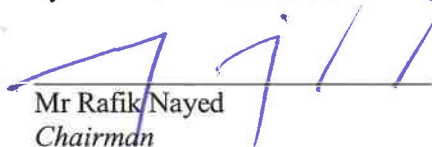
The notes set out on pages 18 to 78 form an integral part of these financial statements.

# GULF AFRICAN BANK LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

ASSETS	Note	2022 KShs '000	2021 KShs '000
Cash and balances with Central Bank of Kenya	14	3,206,600	2,265,084
Deposits and balances due from banking institutions	15(a)	10,617,313	12,846,314
Financing arrangements	16(a)	22,016,309	20,702,926
Other assets	17	790,783	522,859
Tax recoverable	13(c)	367,357	-
Investment in subsidiary	18	1,000	1,000
Intangible assets	19	178,775	180,904
Property and equipment	20	492,924	530,553
Deferred tax asset	21	491,410	628,855
<b>TOTAL ASSETS</b>		<b><u>38,162,471</u></b>	<b><u>37,678,495</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits from customers	22	31,367,799	29,170,883
Current income tax payable	13(c)	-	287,908
Other liabilities	23	766,873	815,399
Financing liabilities	25	-	1,931,610
<b>Total liabilities</b>		<b><u>32,134,672</u></b>	<b><u>32,205,800</u></b>
<b>Shareholders' equity (Page 15)</b>			
Share capital	26(a)	366,324	366,324
Share premium	26(b)	2,282,112	2,282,112
Statutory credit risk reserve	26(c)	304,999	497,173
Retained earnings		3,074,364	2,327,086
<b>Total shareholders' equity</b>		<b><u>6,027,799</u></b>	<b><u>5,472,695</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>38,162,471</u></b>	<b><u>37,678,495</u></b>

The financial statements on pages 14 to 78 were approved and authorised for issue at a meeting held by the Board of Directors on 9 March 2023 and were signed on its behalf by:

  
Mr Rafik Nayed  
Chairman

  
Ms Jyoti Patel  
Director

  
Mrs Amina Bashir  
Company Secretary

The notes set out on pages 18 to 78 form an integral part of these financial statements.

**GULF AFRICAN BANK LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share capital KShs '000	Share premium KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Total KShs '000
<b>2022:</b>					
At 1 January 2022	366,324	2,282,112	497,173	2,327,086	5,472,695
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	555,104	555,104
<b>Other comprehensive income</b>					
Transfer from statutory credit risk reserve	-	-	(192,174)	192,174	-
<b>At 31 December 2022</b>	<b>366,324</b>	<b>2,282,112</b>	<b>304,999</b>	<b>3,074,364</b>	<b>6,027,799</b>
<b>2021:</b>					
At 1 January 2021	366,324	2,282,112	388,589	1,991,610	5,028,635
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	444,060	444,060
<b>Other comprehensive income</b>					
Transfer to statutory credit risk reserve	-	-	108,584	( 108,584)	-
<b>At 31 December 2021</b>	<b>366,324</b>	<b>2,282,112</b>	<b>497,173</b>	<b>2,327,086</b>	<b>5,472,695</b>

The notes set out on pages 18 to 78 form an integral part of these financial statements.

# **GULF AFRICAN BANK LIMITED**

## **STATEMENT OF CASH FLOWS** **FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 KShs '000	2021 KShs '000
<b>Cash flows from operating activities</b>			
Profit before tax		<u>826,748</u>	<u>687,472</u>
Adjusted for:			
Amortisation	19	57,698	59,463
Depreciation	20	144,436	154,931
Re-measurement of right of use lease assets	20	( 55,689)	55,515
Forex difference on the financing liabilities		-	67,402
Finance cost on lease liabilities	9(b)	45,280	57,066
De-recognition of lease assets	20	34,190	54,791
Loss/(gain) on disposal of property and equipment	12	<u>2,340</u>	<u>( 3,906)</u>
<b>Profit before working capital changes</b>		<b>1,055,003</b>	<b>1,132,734</b>
<b>Changes in operating assets</b>			
Central Bank of Kenya – Cash Reserve Ratio (CRR)	14	( 66,627)	( 51,942)
Deposits due from banking institutions	15(a)	5,506,020	( 4,635,373)
Deposits and balances due from banking institutions under statutory management	15(a)	( 5,456)	-
Financing arrangements	16	( 1,313,383)	( 4,354)
Other assets	17	( 267,924)	( 96,510)
		<b><u>3,852,630</u></b>	<b><u>( 4,788,179)</u></b>
<b>Changes in operating liabilities</b>			
Deposits from customers	22	2,196,916	( 801,590)
Re-measurement of lease liabilities		10,146	( 55,515)
Derecognition of lease liabilities		( 45,578)	( 65,347)
Other liabilities		<u>29,233</u>	<u>192,438</u>
		<b><u>2,190,717</u></b>	<b><u>( 730,014)</u></b>
<b>Net cash flow from operating activities before tax</b>		<b>7,098,350</b>	<b>( 4,385,459)</b>
Income taxes paid	13(c)	( 789,464)	( 69,131)
Finance cost on lease liabilities paid	9(b)	( 45,280)	( 57,066)
<b>Net cash flow from operating activities</b>		<b><u>6,263,606</u></b>	<b><u>( 4,511,656)</u></b>
<b>Investing activities</b>			
Purchase of intangible assets	19	( 55,569)	( 23,318)
Purchase of property and equipment	20	( 87,648)	( 75,758)
Proceeds from sale of property and equipment		-	4,150
<b>Net cash used in investing activities</b>		<b>( 143,217)</b>	<b><u>( 94,926)</u></b>
<b>Financing activities</b>			
Payment of term borrowings	25	( 1,931,610)	-
Lease liabilities paid	30(d)	( 42,327)	( 43,483)
<b>Net cash used in financing activities</b>		<b><u>( 1,973,937)</u></b>	<b><u>( 43,483)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,146,452</b>	<b>( 4,650,065)</b>
Cash and cash equivalents at 1 January		<u>7,672,863</u>	<u>12,322,928</u>
<b>Cash and cash equivalents at 31 December</b>	27	<b><u>11,819,315</u></b>	<b><u>7,672,863</u></b>

The notes set out on pages 18 to 78 form an integral part of these financial statements.

**GULF AFRICAN BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

**1. REPORTING ENTITY**

Gulf African Bank Limited (the “Bank”) offers Shari’ah compliant banking services in Kenya. It is incorporated in Kenya under the Kenyan Companies Act, 2015 as a limited liability Company and is licensed under the Banking Act and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya.

The address of the Bank’s registered office is as follows:

Geminia Insurance Plaza  
Kilimanjaro Avenue  
Upper Hill  
PO Box 43683 – 00100  
Nairobi

The financial statements of the Bank as at and for the year ended 31 December 2022 comprise the Bank only (referred to as “Company” or “Bank”).

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenya Companies Act, 2015.

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

The significant accounting policies are set out on Note 4.

**(b) Basis of measurement**

The financial statements have been prepared under the historical cost basis of accounting except where otherwise stated in the accounting policies below.

**(c) Use of estimates and judgments**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on the Directors’ best knowledge of current events, actions, historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **2. BASIS OF PREPARATION (Continued)**

#### **(c) Use of estimates and judgments (continued)**

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 6.

The Bank has made various estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022 and which the Bank believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are largely related to expected credit losses, fair value measurement and the recoverable amount of non-financial assets.

#### **(d) Functional and presentation currency**

The financial statements are presented in Kenya shillings (KShs) which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (KShs '000').

#### **(e) Consolidation of subsidiary**

The Directors of the Bank made a decision not to prepare consolidated financial statements. In the opinion of the Directors, the operations of the subsidiary are considered immaterial in relation to those of the Bank, and therefore the subsidiary results are not included in these financial statements at the reporting date. Therefore, the financial statements of the Bank do not include its subsidiary, GAB Takaful Insurance Agency, as at 31 December 2022.

### **3. DEFINITIONS OF THE BANK'S PRODUCTS**

The following terms are used in the financial statements with the meaning specified:

#### **(a) Murabaha**

An Islamic financing transaction which represents an agreement whereby the Bank buys a commodity/good and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity/goods and a pre-agreed profit margin.

#### **(b) Diminishing Musharaka**

An Islamic financing transaction whereby the Bank will enter into agreement to jointly purchase an asset with another party and income will be received by the Bank relating to that proportion of the asset owned by the Bank at any point in time. The other party to the agreement will make separate payments to purchase additional proportion of the asset from the Bank thereby reducing the Bank's effective share.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **3. DEFINITIONS OF THE BANK'S PRODUCTS (Continued)**

**(c) Ijarah**

An Islamic financing transaction whereby the Bank purchases an asset for lease according to the customer's request (lessee) based on his promise to lease the asset for a specific period and against certain rent instalments. Ijarah could end by transferring the ownership of the asset to the lessee.

**(d) Mudaraba**

An Islamic investing transaction between the Bank and another party (Rab ul Maal) whereby the latter would provide a certain amount of funds, which the Bank (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

**(e) Customer deposits**

Deposits are generated on two modes: Qard and Mudaraba. Deposits taken on the basis of Qard are classified as current accounts while deposits generated on Mudaraba basis are classified as savings and time deposit accounts. No profit or loss is passed to current account depositors. Profit realised in investment pools is distributed among depositors in pre-agreed profit-sharing ratio. Rab ul Maal share is distributed among depositors according to weightages assigned at the inception of the profit calculation period.

**(f) Income paid to depositors**

Profit sharing accounts are based on the principle of Mudaraba whereby the Bank and the customer share any profit earned on the customer deposits on a pre-agreed profit-sharing ratio. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

**(g) Tawarruq**

An Islamic financing arrangement in which a customer purchases a commodity/good from the Bank on deferred payment plan, then sells the commodity immediately to obtain liquidity.

**(h) Wakala**

A contract of agency under Islamic financing arrangement whereby one person appoints another person to perform a certain task on his behalf, in which case the principal or investor (Muwakkil), appoints the agent (Wakil), to perform certain tasks on its behalf (each a "Wakala") from time to time, whereby the Wakil shall act as an agent of the investor with respect to the investment of a specified amount of money.

**(i) Sukuk**

Sukuk represents certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### **(a) Revenue recognition**

Income is recognised on an accrual basis using the effective profit rate method.

##### **(i) *Income from Islamic financing and investing activities***

- Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.
- Diminishing Musharaka income is accounted for on the basis of the reducing balance on a time apportioned basis that reflects the effective yield on the asset.
- Ijarah income is recognised on a time apportioned basis over the lease term.
- Mudaraba income or losses are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib; whereas the losses are charged to income on their declaration by the Mudarib.
- Income for services rendered is recognised when earned.

##### ***Calculation of profit income***

Income from financing arrangements is recognised in profit or loss using the effective profit rate method. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

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

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

##### ***Amortised cost and gross carrying amount***

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

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

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(a) Revenue recognition (continued)**

##### **(i) *Income from Islamic financing and investing activities – continued***

###### ***Calculation of profit income – continued***

The effective profit rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating revenue from financing and investing activities, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, income from Islamic financing and investing activities is calculated by applying the effective profit rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit income reverts to the gross basis.

##### **(ii) *Non-Shari'ah compliant income***

The Bank does not, as a policy, engage in any activities that involve receipt or payment of interest or any other non-Shari'ah compliant activities. However, any non-Shari'ah compliant income earned by the Bank, due to circumstances beyond its control, is transferred to Gulf African Bank Foundation to be used for charitable activities, with the supervision of the Shari'ah Supervisory Board.

##### **(iii) *Dividend income***

Dividend income is recognised in profit or loss when the right to receive income is established.

##### **(iv) *Fees and commission income and expenses***

Fees and commission income is recognized on an accrual basis when the service is provided. Fee and commission income mainly relates to account servicing fees, account transaction fees, charges on issuance of letters of credit, acceptances, guarantees and performance bonds. Other fees and commission expense relate mainly to interbank transaction and other fees, which are expensed as the services are received.

##### **(v) *Foreign exchange income***

Foreign exchange gains and losses which includes all realised and unrealised movements are recognised in the income statement in the period in which they arise.

#### **(b) Translation of foreign currencies**

Transactions in foreign currencies during the year are translated into Kenya shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya shillings at the exchange rate ruling at that date. Resulting exchange differences are recognised in profit or loss for the year.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(b) Translation of foreign currencies (continued)**

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Kenya shillings at the exchange rate ruling at the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated into Kenya shillings using the exchange rate ruling at the date of the transaction.

#### **(c) Property and equipment**

Items of leasehold improvements, motor vehicles, computers, equipment, and furniture and fittings are stated at cost less accumulated depreciation and impairment losses. Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is recognised on the assets on a straight-line basis to allocate the cost of each to its residual value over their estimated useful lives. The rates of depreciation used are based on the following estimated useful lives applicable to the current and prior year:

— Leasehold improvements and right-of-use lease assets	over the lease period
— Computers	3 years
— Equipment	8 years
— Furniture and fittings	8 years
— Motor vehicles	4 years

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

Property and equipment is derecognised on disposals when no future economic benefits are expected to arise from the continuous use of the assets.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and proceeds from disposals and are recognised in profit or loss in the year in which they arise.

#### **(d) Intangible assets**

Computer software and licenses are stated at cost less accumulated amortisation and accumulated impairment.

The costs incurred to acquire and bring to use specific computer software and licences are capitalised. The costs are amortised on a straight-line basis over the expected useful lives, from the date it is available for use, not exceeding five years and are recognised in profit or loss. Costs associated with maintaining software are recognised as an expense as incurred.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(d) Intangible assets (continued)**

Amortization is recognised on the assets on a straight-line basis to allocate the cost of each to its residual value over their estimated useful lives. The rates of amortization used are based on the following estimated useful lives:

— Computer software 5 years

#### **(e) Leases**

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

The Bank recognises a right-of-use asset and a lease liability from the date of initial application of IFRS 16 or at the lease commencement date for contracts after the date of initial application. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines the incremental borrowing rate as the rate of external borrowing that would be applicable to access funding to acquire the right-of-use assets.

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

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

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

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(e) Leases (continued)**

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

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

#### *Short-term leases and leases of low-value assets*

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

#### **(f) Taxation**

Tax on the profit or loss for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes, except temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset on tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates currently enacted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities**

##### **(i) Classification**

###### ***Financial assets***

Financial instruments are classified as follows:

###### ***Amortised cost***

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as fair value through profit or loss:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

###### ***Fair value through other comprehensive income – (FVOCI)***

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment by investment basis.

###### ***Fair value through profit or loss (FVTPL)***

All other financial assets that are not classified as amortised cost and fair value through other comprehensive income (FVOCI) are classified and measured at fair value through profit or loss (FVTPL)

###### ***Business model assessment***

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(i) Classification – continued**

##### ***Financial assets – continued***

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

##### ***Assessment of whether contractual cash flows are solely payments of principal and profit***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments for principal and profit (SPPP), the Bank considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of rates).

The Bank holds a portfolio of long-term fixed-rate loans (financing arrangements) for which it has the option to propose to revise the profit rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The customers have an option to either accept the revised rate or redeem the financing arrangement at par without penalty.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(i) Classification – continued**

###### ***Financial assets – continued***

*Assessment of whether contractual cash flows are solely payments of principal and profit – continued*

The Bank has determined that the contractual cash flows of these financing arrangements are solely payments of principal and profit (SPPP) because the option varies the profit rate in a way that is consideration for the time value of money, credit risk, other basic financing risks and costs associated with the principal amount outstanding.

###### ***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

###### ***Financial liabilities***

Financial liabilities are classified as measured at amortised cost. Financial liabilities include customer deposits, other liabilities, borrowings and deposits due to banking and non-banking financial institutions.

##### **(ii) Recognition**

The Bank initially recognizes Islamic financing and Islamic investing instruments, customer deposits and financing liabilities on the date at which they are originated. All other financial assets and liabilities are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provision of the instrument.

##### **(iii) Measurement**

A financial asset or financial liability is measured initially at fair value and for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Islamic financing and investing assets are initially measured at fair value and incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit method less any impairment losses and deferred income.

##### **(iv) Derecognition**

###### ***Financial assets***

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(iv) *Derecognition – continued***

###### *Financial assets – continued*

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

###### *Financial liabilities*

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### **(v) *Offsetting of financial assets and financial liabilities***

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

##### **(vi) *Modification of financial assets and financial liabilities***

###### *Financial assets*

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised as per (iv) above and a new financial asset is recognised at fair value plus any eligible transaction costs.

If cash flows are modified when the customer is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(vi) *Modification of financial assets and financial liabilities – continued***

###### *Financial assets – continued*

If the Bank plans to modify a financial asset in a way that would result in forfeiture of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective profit rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

###### *Financial liabilities*

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective profit rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective profit rate on the instrument.

##### **(vii) *Fair value measurement***

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

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

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Financial assets and liabilities (continued)**

##### ***(vii) Fair value measurement – continued***

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

The fair value of a financial instrument at initial recognition is normally the transaction price – the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at original recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

#### **(h) Identification and measurement of impairment of financial assets**

The Bank recognises loss allowances for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:

- Islamic financing and investing assets;
- financial guarantee contracts issued;
- undrawn commitments issued, and
- other financial receivables

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, for which they are measured as 12-month expected credit losses:

- Islamic financing and investing assets that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime expected credit losses.

The Bank considers financing and investing assets to have low credit risk when the asset is not in arrears exceeding 30 days and that there are no other major indicators of increase in credit risk from other qualitative factors such as an underlying event or observable issue indicating increased credit risk.

12-month expected credit losses are the portion that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial instruments for which a 12-month expected credit loss is recognised are referred to as ‘Stage 1 financial instruments’.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(h) Identification and measurement of impairment of financial assets (continued)**

Lifetime Expected Credit Losses are the losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime Expected Credit Loss is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

##### **(i) *Measurement of Expected Credit Losses, ECL***

Expected Credit Losses are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing arrangements commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

##### **(ii) *Restructured financial assets***

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognised and expected credit losses are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

All the restructured financial assets of the Bank in the year did not result to derecognition of any assets.

##### **(iii) *Credit-impaired financial assets***

At each reporting date, the Bank assesses whether financial assets are credit-impaired (referred to as 'Stage 3 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.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(h) Identification and measurement of impairment of financial assets (continued)**

##### **(iii) Credit-impaired financial assets – continued**

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event for more than 90 days;
- the restructuring of a financing arrangement by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financing asset that has been renegotiated due to a deterioration in the customer's condition is usually assessed as to whether it is credit-impaired. Such renegotiation arrangement is meant to facilitate the Bank's collection of contractual cash flows. If the risk of collection of contractual cash flows has increased significantly during and after restructuring, then the financing asset is considered credit-impaired.

##### **(iv) Presentation of allowance for Expected Credit Losses**

Loss allowances for Expected Credit Losses are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- undrawn commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the Expected Credit Losses on the undrawn financial arrangements 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; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

##### **(v) Write-offs**

The Bank may write off a financing arrangement balance (and any related allowances for impairment losses) when it determines that the financing arrangements are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the customer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

## **GULF AFRICAN BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

#### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(h) Identification and measurement of impairment of financial assets (continued)**

###### **(v) *Write-offs – continued***

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

###### **(vi) *Non-integral financial guarantee contracts***

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the customer or another company within the customer’s group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it.

The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in ‘other assets’

###### **(vii) *Designation at fair value through profit or loss***

The Bank has not designated any financial assets or financial liabilities at FVTPL.

###### **(viii) *Individual or collective assessment***

An individual measurement of impairment is based on management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor’s financial situation and the net realisable value off any underlying collateral. Each impaired asset is assessed on its merits, and the estimate of cash flows considered recoverable are independently approved by the Credit Risk function.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(i) Impairment for non-financial assets**

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

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

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

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

#### **(j) Cash and cash equivalents**

For the purpose of presentation of the cash flows in the financial statements, cash and cash equivalents include cash and balances with Central Bank of Kenya available to finance the Bank's day-to-day operations and net balances from banking institutions which mature within three months or less from the date of acquisition.

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

#### **(k) Employee benefits**

##### **(i) Defined contribution plan**

The employees of the Bank are eligible for retirement benefits under a defined contribution plan which is managed by an independent pension fund manager.

Contributions to the plan are recognised in profit or loss as incurred. Any difference between amount recognised in profit or loss and the contributions payable is recognised in the statement of financial position under other receivables or other payables.

The employees and the Company also contribute to the National Social Security Fund. Contributions are determined by local statute and the Company's contributions are recognised in profit or loss in the year to which they relate.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(k) Employee benefits (continued)**

##### **(ii) Short term employee benefits**

The Bank recognises the expected cost of short-term employee benefits in the form of compensated absences and bonus payments, when the employees render services and the obligation can be measured reliably.

##### **(iii) Post-employment benefits**

Majority of the Bank's employees are eligible for retirement benefits under a defined contribution scheme. Some contractual employees are entitled to gratuity as per their contract term.

Gratuity provisions are recognised for contractual employees as per their contractual terms. A provision is made in the financial statements for the estimated liability of such gratuity payable and movements in the provision are recognised in profit or loss.

##### **(iv) Termination benefits**

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

##### **(v) Share-based payments**

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

#### **(l) Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### **(m) Dividends**

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(n) Contingent liabilities**

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

#### **(o) Comparatives**

Wherever necessary, comparative figures have been adjusted to conform to changes in presentation in the current year's financial statements.

#### **(p) New standards, amendments and interpretations**

##### ***(i) New standards, amendments and interpretations effective and adopted during the year***

<b>New standard or amendments</b>	<b>Effective for annual periods beginning on or after</b>
— Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022

These standards did not have a material impact on the financial statements of the Bank.

##### ***(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022***

<b>New standards or amendments</b>	<b>Effective for annual period beginning or after</b>
— IFRS 17 Insurance Contracts including amendments	1 January 2023
— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
— Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
— Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction- Amendments to IAS 12 Income Taxes	1 January 2023
— Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Amendments to IFRS 17)	1 January 2023
— Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(p) New standards, amendments and interpretations (continued)**

##### **(ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2022***

<b>New standards or amendments</b>	<b>Effective for annual period beginning or after</b>
— Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) and IFRS Practice Statement 2).	Available for optional adoption

All standards and interpretations will be adopted at their effective date except for those standards and interpretations that are not applicable to the Bank.

### **5. FINANCIAL RISK MANAGEMENT**

#### **Introduction and overview**

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

- Credit risk
- Operational risk
- Liquidity risk
- Market risk
- Settlement risk
- Capital management

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

#### ***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee, Credit Committee and Risk Management Committee, which are responsible for developing and monitoring risk management policies in their specified areas. These committees are assisted by management committees (that is, the Management Credit Committee (MCC), Asset and Liability Committee (ALCO), Human Resources Committee (HRC), and Management Executive Committee (EXCO)) to discharge their responsibilities effectively.

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.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **Introduction and overview (continued)**

##### ***Risk management framework – continued***

The Board Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Board Risk Management Committee is assisted in these functions by the Risk Management department. The department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Management Committee.

#### **(a) Credit risk**

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

##### **Management of credit risk**

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. A separate Credit department, reporting to the Managing Director, 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 the Head of Credit. Larger facilities require approval by Head of Credit, Management Credit Committee or the Board Credit Committee as appropriate.
- *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for financing arrangements), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the risks arising thereon. 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 the Bank.



**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**5. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (continued)**

*Management of credit risk – continued*

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Board Credit Committee on the credit quality of 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 Bank's exposure to credit risk on financing arrangements is analysed as follows:

<b>Exposure to credit risk</b>	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b>Individually impaired (Stage 3)</b>		
Impaired	2,755,782	3,438,424
Stage 3 impairment losses (Note 16(b))	( 1,691,284)	( 1,459,416)
<b>Carrying amount</b>	<b><u>1,064,498</u></b>	<b><u>1,979,008</u></b>
<b>Collectively impaired</b>		
Neither past due nor impaired	19,397,097	17,840,816
Past due but not impaired (1 – 3 months)	1,729,637	965,445
Stage 1 and 2 impairment allowance (Note 16(b))	( 174,923)	( 82,343)
<b>Carrying amount</b>	<b><u>20,951,811</u></b>	<b><u>18,723,918</u></b>
<b>Total carrying amount</b>	<b><u>22,016,309</u></b>	<b><u>20,702,926</u></b>



**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**5. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (continued)**

Below is information on the credit quality of financial assets measured at amortised cost. For financing arrangements, the amounts in the table represent the gross carrying amounts

**(i) Deposits and balances due from banking institutions**

	2022				2021			
	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount	10,593,999	-	918,800	11,512,799	12,817,873	-	918,800	13,736,673
Loss allowance	( 19,795)	-	(875,691)	( 895,486)	( 9,212)	-	(881,147)	( 890,359)
<b>Carrying amount</b>	<b>10,574,204</b>	<b>-</b>	<b>43,109</b>	<b>10,617,313</b>	<b>12,808,661</b>	<b>-</b>	<b>37,653</b>	<b>12,846,314</b>

**(ii) Financing arrangements**

	2022				2021			
	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount	19,397,097	1,729,637	2,755,782	23,882,516	17,840,816	965,445	3,438,424	22,244,685
Loss allowance	( 92,584)	(63,995)	(1,691,284)	( 1,847,863)	( 37,525)	( 35,742)	(1,459,416)	( 1,532,683)
<b>Carrying amount</b>	<b>19,304,513</b>	<b>1,665,642</b>	<b>1,064,498</b>	<b>22,034,653</b>	<b>17,803,291</b>	<b>929,703</b>	<b>1,979,008</b>	<b>20,712,002</b>

**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**5. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (continued)**

**(iii) Off balance sheet financial guarantees**

	2022				2021			
	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount	3,763,888	75,000	-	3,838,888	3,313,224	75,000	-	3,388,224
Loss allowance	( 2,212)	(13,927)	-	( 16,139)	( 3,488)	( 4,510)	-	( 7,998)
<b>Carrying amount</b>	<b>3,761,676</b>	<b>61,073</b>	<b>-</b>	<b>3,822,749</b>	<b>3,309,736</b>	<b>70,490</b>	<b>-</b>	<b>3,380,226</b>

**(iv) Commitments on financing arrangements**

	2022				2021			
	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Gross carrying amount	479,733	98,661	-	578,394	657,036	-	-	657,036
Loss allowance	( 1,003)	( 1,202)	-	( 2,205)	( 1,078)	-	-	( 1,078)
<b>Carrying amount</b>	<b>478,730</b>	<b>97,459</b>	<b>-</b>	<b>576,189</b>	<b>655,958</b>	<b>-</b>	<b>-</b>	<b>655,958</b>

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Financing arrangements with renegotiated terms**

Financing arrangements with renegotiated terms are financing arrangements that have been restructured due to deterioration in the customer's financial position and where the Bank has made concessions that it would not otherwise consider.

The table below shows the financing arrangements with renegotiated terms:

	<b>2022</b> <b>KShs'000</b>	<b>2021</b> <b>KShs'000</b>
Gross unimpaired carrying amount	2,435,661	1,511,508
Impaired amount	167,023	222,815
Allowance for impairment	( 1,478)	( 42,439)
Impaired carrying amount	<u>165,545</u>	<u>180,376</u>
<b>Total carrying amount</b>	<b><u>2,601,206</u></b>	<b><u>1,691,884</u></b>

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognised and expected credit losses are measured as follows;

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset

As a result of COVID-19 pandemic, the Bank restructured facilities with customers as support measures by extending repayments to customer facilities for certain durations. These modifications were based on customers' requests for restructures as a result of the pandemic. For facilities subject to COVID-19 deferral arrangements, an assessment of significant increase in credit risk has been determined based on various measures of the customer's financial position and earning capacity from which the facilities were categorised into stage 1, stage 2 or stage 3.

The gains or losses on restructured facilities has been assessed and considered not to be material. The Bank has tested its business strategy and resolved it remains relevant to create long-term sustainable value for our stakeholders, notwithstanding changes caused by the impact of COVID-19 including restructured facilities.

##### **Staging of financing assets**

12-month expected credit losses are the portion that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss is recognised are referred to as 'Stage 1 financial instruments'.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Staging of financing assets – continued**

Lifetime Expected Credit Losses (ECL) are the losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime Expected Credit Loss is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Financing assets that are credit impaired are referred to as 'Stage 3 financial instruments'.

##### **Impaired financing arrangements**

Impaired financing arrangements are financings for which the Bank determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the financing arrangement(s). These accounts, under Central Bank of Kenya Prudential Guidelines, are termed as non-performing loans.

At each reporting date, the Bank assesses whether financial assets are credit-impaired (referred to as 'Stage 3 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.

##### **Amounts arising from ECL**

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its financing arrangements portfolio. The allowance for impairment is a component of a specific loss component that relates to individually significant exposures, and a collective financing arrangements loss allowance established for homogenous assets in respect of losses that have been incurred but have not yet been identified on financing arrangements subject to individual assessment for impairment.

##### **Inputs, assumptions and techniques used for estimating impairment**

###### *Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due for all financing arrangements.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

###### *Generating the term structure of PD*

The Bank collects performance and default information about its credit risk exposures analysed by the economic sectors of exposures and the level of default over a period of time. The Bank's exposures are in various sectors of the economy, which forms a major input in the determination of term structure of PD. Financing arrangements are analysed into the various economic sectors of manufacturing, building and construction, trade, energy, tourism and hotels, transport and communication, real estate and personal consumer, and uses these portfolios to identify PDs for the portfolio, which are then used in the computation of impairment for the various customers under each portfolio.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. PDs are modelled at portfolio level based on a transition matrix, by modelling the movement of financing arrangements from one classification (staging) to another classification. The movements in the financing arrangements for the various economic sector categories is based on the value of the financing arrangements.

The modelled PDs are based on a 12-month transition matrix as the best estimate for the next one year to reflect 'point in time' transition. Further, this was corroborated by the growing trend of default rates historically.

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the customer and the condition of the financing facility as at the reporting date. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if it is overdue for more than 30 days, based on the Bank's quantitative modelling.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria. Such qualitative factors are based on its expert judgment and relevant historical experiences.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a financing arrangement have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default and that the average time between the identification of a significant increase in credit risk and default appears reasonable.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

###### *Definition of default*

The Bank considers a financial asset to be in default when:

- the customer is more than 90 days past due on any material credit obligation to the Bank;
- the customer is unlikely to pay their credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- it is becoming probable that the customer will restructure the asset as a result of bankruptcy due to the customer's inability to pay their credit obligations.

In assessing whether a customer is in default, the Bank considers indicators that are:

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

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

The definition of default largely aligns with that applied by the Bank for regulatory purposes

###### *Incorporation of forward-looking information*

The Bank incorporates forward looking information into both the assessment of whether credit risk of a financial instrument has increased significantly since initial recognition and the measurement of ECL.

The Bank has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on probability of default (PD), exposure at default (EAD) and loss given default (LGD) vary by financial instrument.

Based on advice from the Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies such as the *Kenya National Bureau of Statistics (KNBS)* and the *Central Bank of Kenya (CBK)* and also supranational organisations such as the *International Monetary Fund (IMF)*, *World Bank* and selected private-sector and academic forecasters.

Forecasts of the base economic scenario and the possible scenarios have been prepared and the impact of these economic variables on the PD, EAD and LGD determined by performing statistical regression analysis to understand the impact the changes in these variables have had historically on default rates and on the components of LGD and EAD.



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

##### *Incorporation of forward-looking information – continued*

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Various key economic variables are used in the computation of ECL. The economic variables were modelled for correlation with the Bank's non-performing financing arrangement ratios for each of the Bank's economic sector exposures.

The key macro-economic indicators include the Central Bank rate (CBR), term deposits rate, Gross Domestic Product (GDP), treasury bills rates (91-, 182- and 364- day), public debt to GDP, savings deposit rate, reverse repo, lending rate and housing price index.

The correlation of the above factors with the Bank's non-performing financing arrangements ratio, (NPF%) was also used to determine whether these factors should be lagged. Linear correlations between the macroeconomic factors and the Bank's economic sector non-performing financing arrangements were individually tested. A normality test was done for each of the data inputs to ensure that each data input had a normal distribution curve.

The Bank's non-performing financing arrangements ratio (NPF%) was a reasonable approximation to the Bank's default risk. The correlation between the Bank's non-performing financing arrangements (NPF%) with the above macroeconomic factors was then inferred to the Bank's predicted probabilities of default.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation. In determining the likelihood of each of the three macroeconomic scenarios, a weighting was performed for each of the economic sectors.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

The Bank uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analysing the portfolio and the impact.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

##### **Sensitivity analysis**

The Expected Credit Losses (ECL) is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how those scenarios are incorporated into the calculations of expected credit losses.

The additional loss allowance on financing arrangements assuming all the forward-looking scenarios of base case, upside and downside were weighted 100% instead of applying the scenario probability weighting would be as below;

	2022 KShs'000	2021 KShs'000
Impairment loss on financial assets	<u>120,762</u>	<u>111,447</u>

##### *Financing arrangements with renegotiated terms*

Financing arrangements with renegotiated terms are financing arrangements that have been restructured due to deterioration in the customer's financial position and where the Bank has made concessions that it would not otherwise consider.

The contractual terms of a financing arrangement may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing arrangement whose terms have been modified may be derecognised and the renegotiated financing arrangement recognised as a new financing at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly is dependent on the quantitative and qualitative factors of the financing arrangement. As a general application, once the financing arrangement is restructured it remains in this category (stage) independent of satisfactory performance after restructuring. When modification results in derecognition, a new financing arrangement is recognised and allocated to the stage it was before restructuring took place.

The Bank renegotiates financing arrangements to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank's Credit policy, renegotiation is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing arrangements covenants.

The renegotiation of terms is not by itself an indicator of significant increase in credit risk, but in addition, the short-term compliance with new terms of the financing arrangement does not necessarily indicate the reduction in credit risk. Other qualitative factors are taken into consideration alongside the renegotiation, to determine if there is significant increase in credit risk. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or in default such that the loss allowance reverts to being measured at an amount equal to Stage 1.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

##### **Sensitivity analysis – continued**

##### *Financing arrangements with renegotiated terms – continued*

ECLs were estimated based on a range of forecasted economic conditions as at 31 December 2022 and considering that the economic situation is continuously changing. The following represents the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs and highlights the significant changes during the year.

- Grouping of financial arrangements portfolio using exposures to various economic sectors, from the previous customer groupings of business units of corporate, SME and retail;
- Point –in-time PDs updated using latest available macro-economic factors forecasts which correlate with Bank's non-performing financing arrangements (%);
- Probability weights updated under the different economic sectors

##### *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor on the Forced Sale Value (FSV) of the collateral.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation.

The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Inputs, assumptions and techniques used for estimating impairment – continued**

##### **Sensitivity analysis – continued**

##### *Measurement of ECL – continued*

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financial arrangement commitment or guarantee.

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

- type of customer
- instrument type;
- collateral type;
- date of initial recognition;
- remaining term to maturity;

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

##### **Write-off policy**

The Bank may write off a financing arrangement balance (and any related allowances for impairment losses) when it determines that the financing arrangements are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the customer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

##### **Collateral held and other enhancements**

The Bank holds collateral against financing arrangements to customers in the form of mortgage interests over property, registered securities over assets, and guarantees.

Estimates of fair value are based on the value of collateral assessed at the time of financing, and generally are not updated except when a financing is individually assessed as impaired.

Collateral generally is not held over deposits and balances due from banking institutions, except when securities are held as part of reverse repurchase and securities borrowing activity.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

*Measurement of ECL – continued*

#### **Collateral held and other enhancements – continued**

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

<b>Fair values of collateral held:</b>	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Impaired financing arrangements	2,821,642	3,126,842
Past due but not impaired financing arrangements	3,570,723	1,410,714
Not past due nor impaired financing arrangements	<u>19,095,800</u>	<u>21,169,801</u>
	<b><u>25,488,165</u></b>	<b><u>25,707,357</u></b>

#### **Impairment allowances**

The following tables shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The amounts under financing arrangements include impairment for financial guarantees and unutilised financing arrangements.

**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**5. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (continued)**

**Placement with banks**

	2022				2021			
	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Balance at 1 January	9,212	-	881,147	890,359	5,536	-	881,147	886,683
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Net re-measurement of loss allowance	-	-	( 5,456)	( 5,456)	(5,536)	-	-	( 5,536)
New financial assets originated	10,583	-	-	10,583	9,212	-	-	9,212
<b>Balance at 31 December</b>	<b>19,795</b>	<b>-</b>	<b>875,691</b>	<b>895,486</b>	<b>9,212</b>	<b>-</b>	<b>881,147</b>	<b>890,359</b>



**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**5. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (continued)**

**Financing arrangements to customers**

	2022				2021			
	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs '000	Total KShs'000	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs '000	Total KShs'000
Balance at 1 January	42,090	40,253	1,459,416	1,541,759	93,051	56,276	1,923,700	2,073,027
Transfer to Stage 1	-	(28,081)	(19,577)	(47,658)	-	(17,976)	(16,758)	(34,734)
Transfer to Stage 2	(501)	-	(6,595)	(7,096)	(1,208)	-	(11,823)	(13,031)
Transfer to Stage 3	(581)	(2,273)	-	(2,854)	(1,883)	(5,504)	-	(7,387)
Net re-measurement	23,294	62,037	417,762	503,093	(43,748)	2,069	292,533	250,854
New financial assets originated	35,078	8,939	3,928	47,945	3,377	5,713	2,540	11,630
Financial assets that have matured	(3,255)	(492)	(17,248)	(20,995)	(7,472)	(325)	(16,624)	(24,421)
Write-offs	(327)	(1,258)	(146,402)	(147,987)	(27)	-	(714,152)	(714,179)
Other movements	-	-	-	-	-	-	-	-
Balance at 31 December	95,798	79,125	1,691,284	1,866,207	42,090	40,253	1,459,416	1,541,759

**Monitoring concentration risk**

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at the reporting date is shown below:

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(a) Credit risk (continued)**

##### **Monitoring concentration risk – continued**

	<b>KShs'000</b>	<b>Percentage</b>
<b>Concentration by Sector - 2022</b>		
Manufacturing	688,103	3%
Tourism, Restaurants & Hotels	1,131,068	5%
Energy	1,720,735	7%
Transport and communication	3,119,497	13%
Real estate	3,279,202	14%
Personal consumer	5,864,736	25%
Wholesale and retail trade	7,040,206	29%
Others	<u>1,038,969</u>	<u>4%</u>

<b>Total gross financing arrangements</b>	<b><u>23,882,516</u></b>	<b><u>100%</u></b>
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##### **Concentration by sector – 2021**

Manufacturing	671,717	3%
Tourism, Restaurants & Hotels	1,020,499	5%
Energy	1,665,486	7%
Transport and communication	2,744,908	12%
Real estate	3,406,415	15%
Personal consumer	5,601,550	25%
Wholesale and retail trade	6,018,110	27%
Others	<u>1,116,000</u>	<u>6%</u>

<b>Total gross financing arrangements</b>	<b><u>22,244,685</u></b>	<b><u>100%</u></b>
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<b>Other financial assets</b>	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>

##### **Time deposits due from banking institutions under statutory management**

Impaired	918,800	918,800
Specific impairment losses	( 875,691)	(881,147)

Carrying amount	43,109	37,653
Past due but not impaired	<u>-</u>	<u>-</u>

<b>Total carrying amount (Note 15(a))</b>	<b><u>43,109</u></b>	<b><u>37,653</u></b>
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A portion of time deposits with a banking institution placed under receivership was considered impaired and impairment provisions were made after considering the value of securities held by the Bank against the deposits. The Bank holds a lien over treasury bonds of KShs 50,000,000 (2021 – KShs 50,000,000), and the face value of the bonds is payable to the Bank upon maturity. The fair value of the collateral held as at 31 December 2022 is KShs 43,109,000 (2021 – KShs 37,653,000).

<b>Neither past due nor impaired</b>	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Balances with the Central Bank of Kenya (Note 14)	2,147,871	1,267,518
Deposits and balances due from banking institutions (Note 15(a))	10,574,204	12,808,661
Other assets excluding prepayments (Note 17)	<u>653,647</u>	<u>392,906</u>
	<b><u>13,375,722</u></b>	<b><u>14,469,085</u></b>

## **GULF AFRICAN BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

#### **5. FINANCIAL RISK MANAGEMENT (Continued)**

##### **(b) Operational risk**

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with Shari'ah rules, regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance/takaful where this is effective.

##### **(c) Liquidity risk**

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

##### **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 receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely deposits and balances due from banking institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term financing arrangements from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (continued)

##### **Residual contractual maturities of financial liabilities at 31 December 2022 and 2021**

The table below analyses financial liabilities into relevant maturities based on the remaining period at year end to the contractual maturity date:

<b>31 December 2022:</b>	<b>Up to 1 month KShs'000</b>	<b>1 – 3 months KShs'000</b>	<b>3 - 12 months KShs'000</b>	<b>Over 12 months KShs'000</b>	<b>Total KShs'000</b>
<b>Liabilities</b>					
Deposits from customers	24,214,477	3,644,893	3,289,427	219,002	31,367,799
Other liabilities	471,109	-	-	-	471,109
Lease liabilities	-	-	1,535	294,229	295,764
Financing liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b><u>24,685,586</u></b>	<b><u>3,644,893</u></b>	<b><u>3,290,962</u></b>	<b><u>513,231</u></b>	<b><u>32,134,672</u></b>

<b>31 December 2021:</b>	<b>Up to 1 month KShs'000</b>	<b>1 – 3 months KShs'000</b>	<b>3 - 12 months KShs'000</b>	<b>Over 12 months KShs'000</b>	<b>Total KShs'000</b>
<b>Liabilities</b>					
Deposits from customers	21,723,426	4,697,813	2,500,712	248,932	29,170,883
Other liabilities	282,177	32,700	-	-	314,877
Lease liabilities	-	7,117	21,659	344,747	373,523
Financing liabilities	-	-	-	1,931,610	1,931,610
<b>Total liabilities</b>	<b><u>22,005,603</u></b>	<b><u>4,737,630</u></b>	<b><u>2,522,371</u></b>	<b><u>2,525,289</u></b>	<b><u>31,790,893</u></b>

##### **Exposure to liquidity risk**

A key measure of liquidity risk is the liquidity ratio which is a ratio of net liquid assets to deposit liabilities.

Net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The liquidity ratios at the financial reporting date and during the reporting period (based on month end ratios) were as follows:

	<b>2022</b>	<b>2021</b>
At close of the year	44%	52%
Average for the year	49%	51%
Maximum for the year	55%	53%
Minimum for the year	42%	48%

The Bank did not have material impact on its liquidity challenges in the year under review. The management of the Bank has enhanced monitoring of liquidity and funding requirements with the objective of availing more sources of funding as and when necessary to maintain adequate liquidity position at a reasonable cost of funding.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(c) Liquidity risk (continued)**

The Bank also continues to enhance its liquidity stress testing by improving stress scenarios in line with evolving market conditions.

#### **(d) Market risk**

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

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

The Bank is primarily exposed to currency risk. Due to the nature of the Bank's current products, the exposure to any other market risk is minimal. Due to the limited exposure of the Bank's balance sheet to market risk, there was no adverse impact on the Bank resulting from changes in market prices in the year under review.

#### ***Currency risk***

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The Bank's currency risk is managed within Central Bank of Kenya exposure guideline of 10% of core capital. Management monitors foreign currency exposure on a daily basis.

The tables below analyse the currencies to which the Bank is exposed to:

<b>31 December 2022:</b>	<b>USD</b>	<b>GBP</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>Assets</b>					
Cash and balances with Central Bank of Kenya	562,371	17,485	54,996	727	635,579
Deposits and balances due from banking institutions	1,559,115	39,883	62,591	140,829	1,802,418
Financing arrangements	4,427,455	-	-	-	4,427,455
Other assets	22,696	12	-	-	22,708
<b>Total assets</b>	<b><u>6,571,637</u></b>	<b><u>57,380</u></b>	<b><u>117,587</u></b>	<b><u>141,556</u></b>	<b><u>6,888,160</u></b>
<b>Liabilities</b>					
Deposits from customers	4,779,626	48,021	104,983	184	4,932,814
Other liabilities	98,463	4,580	1,577	2	104,622
Financing liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b><u>4,878,089</u></b>	<b><u>52,601</u></b>	<b><u>106,560</u></b>	<b><u>186</u></b>	<b><u>5,037,436</u></b>
<b>Overall net position</b>	<b><u>1,693,548</u></b>	<b><u>4,779</u></b>	<b><u>11,027</u></b>	<b><u>141,370</u></b>	<b><u>1,850,724</u></b>



# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Market risk (continued)

##### *Currency risk – continued*

31 December 2021:	USD	GBP	EURO	Other	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Assets</b>					
Cash and balances with Central Bank of Kenya	550,113	34,624	4,725	736	590,198
Deposits and balances due from banking institutions	2,064,522	8,943	98,301	72,496	2,244,262
Financing arrangements	4,332,194	-	-	-	4,332,194
Other assets	2,592	234	-	-	2,826
<b>Total assets</b>	<b>6,949,421</b>	<b>43,801</b>	<b>103,026</b>	<b>73,232</b>	<b>7,169,480</b>
<b>Liabilities</b>					
Deposits from customers	3,904,927	41,609	86,892	431	4,033,859
Other liabilities	69,277	2,586	659	188	72,710
Financing liabilities	1,931,610	-	-	-	1,931,610
<b>Total liabilities</b>	<b>5,905,814</b>	<b>44,195</b>	<b>87,551</b>	<b>619</b>	<b>6,038,179</b>
<b>Overall net position</b>	<b>1,043,607</b>	<b>( 394)</b>	<b>15,475</b>	<b>72,613</b>	<b>1,131,301</b>

The following significant exchange rates were applied during the year:

	Closing		Average	
	2022 KShs	2021 KShs	2022 KShs	2021 KShs
USD	123.45	113.15	118.37	109.92
GBP	148.40	152.52	145.17	151.20
EUR	131.61	128.24	124.06	129.79

#### Sensitivity analysis

A 10 percent strengthening of the Kenya shillings against the following currencies would have increased profit or loss by amounts shown below. This analysis assumes that all other variables, in particular profit rates, remain constant.

The analysis is performed on the same basis for both 2022 and 2021.

	Profit or (loss)/equity	
	2022	2021
	KShs'000	KShs'000
USD	(169,355)	(104,361)
GBP	( 478)	39
Euro	( 1,103)	( 1,548)
Other	( 14,137)	( 7,261)

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(e) Settlement risk**

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

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process described earlier.

#### **(f) Capital management**

The Bank's objective when managing capital (regulatory capital) is to comply with the capital requirements as set out by the Central Bank of Kenya and safeguard the Bank's ability to continue as a going concern as well as maintaining a strong capital base to support the development of its business.

Under the regulatory environment, the Central Bank of Kenya requires every financial institution to:

- (a) Maintain a minimum capital of KShs 1,000 million (2021 – KShs 1,000 million).
- (b) Maintain a core capital of not less than 8.0% (2021 – 8.0%) of total deposit liabilities.
- (c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2021 – 10.5%) and
- (d) Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2021 – 14.5%).

The Bank is compliant with all the above requirements.

The Bank calculates capital adequacy ratios for credit risk, market risk and operational risk based upon Basel requirements and the prudential guidelines as issued by the Central Bank of Kenya.

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

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

Operational risk weighted assets is computed using the basic indicator approach which is based on the average gross revenue over the prior 3-year period.

Market risk weighted assets is computed using a standardised approach based on the foreign exchange exposure as at 31 December each year.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 5. FINANCIAL RISK MANAGEMENT (Continued)

#### (f) Capital management (continued)

The Bank's regulatory capital is analysed into two tiers:

- Core capital (Tier 1), which includes ordinary share capital, share premium, and retained earnings.
- Supplementary capital (Tier 2), which includes statutory credit risk reserve, subordinated debt not exceeding 50% of core capital, and any other approved reserves.

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

	2022 KShs'000	2021 KShs'000
<b>Core capital (Tier 1)</b>		
Share capital	366,324	366,324
Share premium	2,282,112	2,282,112
Retained earnings	3,074,364	2,327,086
Non qualifying deferred tax asset	-	( 131,303)
	<u><b>5,722,800</b></u>	<u><b>4,844,219</b></u>
<b>Supplementary capital (Tier 2)</b>		
Subordinated financing liabilities	-	678,900
Qualifying statutory credit risk reserve	304,999	387,027
<b>Total capital</b>	<u><b>6,027,799</b></u>	<u><b>5,910,146</b></u>
<b>Risk weighted assets</b>		
On-balance sheet	23,934,442	23,931,362
Off-balance sheet	1,652,667	1,512,451
<b>Total credit risk weighted assets</b>	<u><b>25,587,109</b></u>	<u><b>25,443,813</b></u>
Operational risk weighted assets	5,696,754	5,336,755
Market risk weighted assets	240,170	181,612
<b>Total risk weighted assets</b>	<u><b>31,524,032</b></u>	<u><b>30,962,180</b></u>
<b>Total deposit liabilities</b>	<u><b>31,367,799</b></u>	<u><b>29,170,883</b></u>
<b>Capital ratios</b>	<b>2022</b>	<b>2021</b>
Core capital/total risk weighted assets (CBK minimum 10.5%) (2021 – 10.5 %)	18.2%	15.6%
Core capital/total deposit liabilities (CBK minimum 8.0%) (2021 – 8.0%)	18.2%	16.6%
Total capital/total risk weighted assets (CBK minimum 14.5%) (2021 – 14.5%)	19.1%	19.1%

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **5. FINANCIAL RISK MANAGEMENT (Continued)**

#### **(g) Climate related risks**

Presently, climate change is becoming an increasingly important issue for financial institutions, regulators, investors, and clients. The Bank remains committed to addressing the climate crisis by supporting the transition to a sustainable, low-carbon economy that balances society's environmental, social, and economic needs.

Climate-related risks have a potential negative impact on the Bank arising from climate change. These risks have an impact on the principal risk categories of credit risk, liquidity risk, market risk and operational risk discussed above, but due to their pervasive nature have been identified and managed by the Bank on an overall basis.

In October 2021, the Central Bank of Kenya issued a Guidance on climate related risk management with the following road map.

<b>Activity</b>	<b>Period/dates</b>
Sensitization of banks Chief Executive Officers/Managing Directors	October 2021
Banks Staff sensitization on climate change risk management	January 2022 – March 2022
Submission of board approved implementation Plan	June 2022
Quarterly updates on implementation of board approved plans	September 2022
Disclosures of climate-related information to enhance transparency benchmarked to Task Force on Climate-related Financial Disclosures (TCFD) Framework	January 2023 – June 2023

The Bank is putting in place further mechanisms for management of climate-related risks and has complied to the road-map issued by the Central Bank of Kenya.

### **6. USE OF ESTIMATES AND JUDGEMENTS**

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

#### **Key sources of estimation uncertainty and judgements**

##### **(a) Allowance for credit losses**

Assets accounted for at amortised cost and fair value through other comprehensive income are evaluated for impairment on a basis described in accounting policy 4(h).

The Bank recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs. These are classified as Stage 1 assets.

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **6. USE OF ESTIMATES AND JUDGEMENTS (Continued)**

#### **Key sources of estimation uncertainty and judgements (continued)**

##### **(a) Allowance for credit losses – continued**

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate. These are classified as Stage 3 assets.

In relation to COVID-19 pandemic judgements and assumptions have been made reflecting the historical experience and other factors that are considered to be relevant and are believed to be reasonable under the circumstances. These factors include expectations of future events, extent and duration of the pandemic and actions of government and other authorities.

##### **(b) Taxes**

Determining income tax provision involves judgement on the tax treatment of certain transactions. Deferred tax assets are recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

##### **(c) Leases**

When measuring lease liabilities for all leased assets, the Bank has discounted lease liabilities using its incremental borrowing rate at 1 January 2020. The incremental borrowing rate applied of 13% has been maintained for 2022 (2021 – 13%).

### **7. FINANCIAL ASSETS AND LIABILITIES**

#### **Accounting classifications and fair values**

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values. There are no financial assets and financial liabilities classified as mandatorily at FVTPL, designated at FVTPL or FVOCI for both debt and equity instruments.

<b>As at 31 December 2022:</b>	<b>Amortized cost KShs'000</b>	<b>Total carrying amount KShs'000</b>	<b>Fair value KShs'000</b>
<b>Assets</b>			
Cash and balances with Central Bank of Kenya	3,206,600	3,206,600	3,206,600
Deposits and balances due from banking institutions	10,617,313	10,617,313	10,617,313
Financing arrangements	22,016,309	22,016,309	22,016,309
Other assets excluding prepayments	<u>653,647</u>	<u>653,647</u>	<u>653,647</u>
<b>Total assets</b>	<b><u>36,493,869</u></b>	<b><u>36,493,869</u></b>	<b><u>36,493,869</u></b>



# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 7. FINANCIAL ASSETS AND LIABILITIES (Continued)

#### Accounting classifications and fair values (continued)

As at 31 December 2022:	Amortized cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
<b>Liabilities</b>			
Deposits from customers	31,367,799	31,367,799	31,367,799
Other liabilities	332,399	332,399	332,399
Lease liabilities	<u>295,764</u>	<u>295,764</u>	<u>295,764</u>
<b>Total liabilities</b>	<b><u>31,995,962</u></b>	<b><u>31,995,962</u></b>	<b><u>31,995,962</u></b>
<b>As at 31 December 2021:</b>	<b>Amortized cost KShs'000</b>	<b>Total carrying amount KShs'000</b>	<b>Fair value KShs'000</b>
<b>Assets</b>			
Cash and balances with Central Bank of Kenya	2,265,084	2,265,084	2,265,084
Deposits and balances due from banking institutions	12,846,314	12,846,314	12,846,314
Financing arrangements	20,702,926	20,702,926	20,702,926
Other assets excluding prepayments	<u>392,906</u>	<u>392,906</u>	<u>392,906</u>
<b>Total assets</b>	<b><u>36,207,230</u></b>	<b><u>36,207,230</u></b>	<b><u>36,207,230</u></b>
<b>As at 31 December 2021:</b>	<b>Amortized cost KShs'000</b>	<b>Total carrying amount KShs'000</b>	<b>Fair value KShs'000</b>
<b>Liabilities</b>			
Deposits from customers	29,170,883	29,170,883	29,170,883
Other liabilities	314,877	314,877	314,877
Lease liabilities	373,523	373,523	373,523
Financing liabilities	<u>1,931,610</u>	<u>1,931,610</u>	<u>1,931,610</u>
<b>Total liabilities</b>	<b><u>31,790,893</u></b>	<b><u>31,790,893</u></b>	<b><u>31,790,893</u></b>

### 8. INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2022 KShs'000	2021 KShs'000
Income from financing arrangements	2,223,797	2,150,160
Income from investing assets – placements	881,228	755,677
Income from investing assets – Sukuk	<u>-</u>	<u>6,901</u>
	<b><u>3,105,025</u></b>	<b><u>2,912,738</u></b>

Included in income from investing activities from placements is income derived from placements under Tawarruq arrangements made with Islamic windows of conventional banks as well as conventional banks.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

9.	<b>(a) INCOME PAID TO DEPOSITORS</b>	<b>2022</b> <b>KShs'000</b>	<b>2021</b> <b>KShs'000</b>
	Time deposits	473,826	448,451
	Savings deposits	37,197	29,026
	Interbank deposits	<u>1,593</u>	<u>3,153</u>
		<b><u>512,616</u></b>	<b><u>480,630</u></b>
	<b>(b) INCOME PAID FOR FINANCING LIABILITIES</b>		
	Term financing liabilities	85,129	136,325
	Finance cost on lease liabilities (Note 30(c))	<u>45,280</u>	<u>57,066</u>
		<b><u>130,409</u></b>	<b><u>193,391</u></b>
10.	<b>NET FEE AND COMMISSION INCOME</b>		
	<b>Fee and commission income</b>		
	Commissions	456,843	425,994
	Service fees	<u>33,616</u>	<u>43,721</u>
		<b><u>490,459</u></b>	<b><u>469,715</u></b>
	<b>Fee and commission expense</b>		
	Interbank transaction fees and other fees	( 20,235)	( 14,699)
	<b>Net fee and commission income</b>	<b><u>470,224</u></b>	<b><u>455,016</u></b>
	Fees and commission income mainly arise from contracts with customers in the scope of IFRS 15. Transaction fees for processing financing arrangements are recognised when the transaction takes place while the service fees are based on fixed fees published by the Bank and are recognised when the service is provided.		
11.	<b>(a) STAFF EXPENSES</b>	<b>2022</b> <b>KShs'000</b>	<b>2021</b> <b>KShs'000</b>
	Salaries and allowances	969,745	993,671
	Staff pension	73,626	71,849
	Medical	59,584	61,063
	Training	6,739	11,937
	Other staff expenses	<u>22,074</u>	<u>13,483</u>
		<b><u>1,131,768</u></b>	<b><u>1,152,003</u></b>
	Other staff expenses relate to staff subscriptions, recruitment costs and related expenses. The total number of employees at year-end for the Bank was 330 (2021 – 366).		
	<b>(b) OTHER OPERATING EXPENSES</b>	<b>2022</b> <b>KShs'000</b>	<b>2021</b> <b>KShs'000</b>
	Occupancy expenses	63,941	65,556
	Advertising and marketing expenses	23,621	42,867
	Security expenses	41,112	62,288
	Information, communication and technology costs	115,881	119,104
	Donations	16,657	18,083
	Deposit protection fund	46,884	42,361
	Other expenses	<u>352,919</u>	<u>340,277</u>
		<b><u>661,015</u></b>	<b><u>690,536</u></b>

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 12. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):	<b>2022</b> <b>KShs '000</b>	<b>2021</b> <b>KShs '000</b>
Depreciation (Note 20)	144,436	154,931
Amortisation (Note 19)	57,698	59,463
Directors' emoluments – fees (Note 29(f))	37,350	34,273
– other (Note 29(f))	22,835	38,383
Auditors' remuneration (inclusive of VAT at 16%)	6,332	5,974
(Loss)/gain on disposal of property and equipment	( 2,340)	<u>3,906</u>

### 13. INCOME TAX EXPENSE

#### (a) Income tax expense

##### Current tax:

Current income tax expense at 30% (2021 – 30%)	116,480	485,520
on the profit for the year as adjusted for tax purposes	17,719	( 278)
Prior year under/(over) provision	<u>134,199</u>	<u>485,242</u>

##### Deferred tax:

Change during the year (Note 21)	136,909	(270,929)
Prior year over provision (Note 21)	<u>536</u>	<u>29,099</u>
	<u>137,445</u>	<u>(241,830)</u>

<b>Income tax expense through profit and loss</b>	<b><u>271,644</u></b>	<b><u>243,412</u></b>
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#### (b) Reconciliation of tax expense

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

	<b>2022</b> <b>KShs'000</b>	<b>2021</b> <b>KShs'000</b>
Accounting profit before taxation	<u>826,748</u>	<u>687,472</u>
Computed tax using the applicable corporation tax rate at 30% (2020 – 25%)	248,024	206,242
Net effect on non-deductible costs	5,365	66,547
Prior year over provision – current tax	17,719	( 278)
Prior year (under)/over provision – deferred tax (Note 21)	<u>536</u>	<u>( 29,099)</u>
<b>Income tax expense</b>	<b><u>271,644</u></b>	<b><u>243,412</u></b>

#### (c) Tax (recoverable)/payable

At 1 January	287,908	(128,203)
Charge for the year	116,480	485,520
Prior year over provision	17,719	( 278)
Paid during the year	(789,464)	( 69,131)
	<u>(367,357)</u>	<u>287,908</u>
Comprising:		
<b>Tax recoverable)/payable</b>	<b><u>(367,357)</u></b>	<b><u>287,908</u></b>

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2022 KShs'000	2021 KShs '000
Cash in hand	1,058,729	997,566
Balances with Central Bank of Kenya:		
Restricted balances (cash reserve ratio)	1,252,020	1,185,393
Unrestricted balances with Central Bank of Kenya	<u>895,851</u>	<u>82,125</u>
	<b><u>3,206,600</u></b>	<b><u>2,265,084</u></b>

By law, commercial banks are required to maintain prescribed cash balances with Central Bank of Kenya as a cash ratio requirement which is non-yield bearing. This balance is determined on the basis of outstanding customer deposits at the end of the preceding month and is maintained over a cycle of one month. As at 31 December 2022, the cash ratio requirement was 4.25% (2021 – 4.25%) of customer deposits. These funds are however available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% of the requirement and provided that the overall average in the month is at least 4.25%.

### 15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

(a) Classification	2022 KShs'000	2021 KShs'000
Time deposits	9,813,302	12,078,356
Impairment losses	( 19,795)	( 9,212)
Current accounts	<u>780,697</u>	<u>739,517</u>
	<b><u>10,574,204</u></b>	<b><u>12,808,661</u></b>
Time deposits due from banking institutions under Statutory management	918,800	918,800
Impairment losses	( 875,691)	( 881,147)
	<u>43,109</u>	<u>37,653</u>
	<b><u>10,617,313</u></b>	<b><u>12,846,314</u></b>
Maturing within:		
Less than 3 months	9,103,833	5,862,867
Over 3 months	<u>709,469</u>	<u>6,215,489</u>
	<b><u>9,813,302</u></b>	<b><u>12,078,356</u></b>

#### (b) Impairment losses on financial assets

	Stage 3 impairment losses KShs'000	Stage 1 and 2 impairment provision KShs'000	Total KShs'000
2022:			
At 1 January 2022	881,147	9,212	890,359
Provisions for impairment	-	19,795	19,795
Releases	( 5,456)	( 9,212)	( 14,668)
Charge for the year	( 5,456)	10,583	5,127
At 31 December 2022	<b><u>875,691</u></b>	<b><u>19,795</u></b>	<b><u>895,486</u></b>

**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS (Continued)**

**(b) Impairment losses on financial assets (continued)**

**Stage 1**

	<b>Stage 3 impairment losses KShs'000</b>	<b>and 2 impairment provision KShs'000</b>	<b>Total KShs'000</b>
<b>2021:</b>			
At 1 January 2021	881,147	5,536	886,683
Provisions for impairment	-	9,212	9,212
Releases	-	(5,536)	( 5,536)
Charge for the year	-	3,676	3,676
<b>At 31 December 2021</b>	<b><u>881,147</u></b>	<b><u>9,212</u></b>	<b><u>890,359</u></b>

Time deposits represent commodity Murabaha contracts (a subset of Murabaha) used as a liquidity management tool. In these contracts, a commodity is sold on a deferred basis with a mark-up. The effective profit rate on Time deposits as at 31 December 2022 was 8.48% (2021 – 6.73%).

**(c) Amounts forming part of cash and cash equivalents**

For purposes of the cash flow statement, the following balances constitute cash and cash equivalents.

	<b>2022 KShs'000</b>	<b>2021 KShs'000</b>
Time deposits maturing within 3 months	9,103,833	5,862,867
Impairment losses	( 19,795)	( 9,212)
Current accounts	780,697	739,517
	<b><u>9,864,735</u></b>	<b><u>6,593,172</u></b>

**16. FINANCING ARRANGEMENTS**

**(a) Classification**

Murabaha	10,235,649	9,681,852
Diminishing Musharaka	13,646,867	12,470,926
Ijarah	-	91,907
Gross financing arrangements	23,882,516	22,244,685
Impairment losses (Note 16(b))	( 1,866,207)	( 1,541,759)
<b>Net financing arrangements</b>	<b><u>22,016,309</u></b>	<b><u>20,702,926</u></b>
Repayable within:		
Less than 3 months	4,984,746	5,054,687
3 months to 1 year	2,120,885	1,648,346
1 to 5 years	6,887,439	7,097,777
Over 5 years	9,889,446	8,443,875
	<b><u>23,882,516</u></b>	<b><u>22,244,685</u></b>



# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 16. FINANCING ARRANGEMENTS (Continued)

#### (b) Impairment losses on financial assets

	Stage 3 impairment losses KShs '000	Stage 1 and 2 impairment provision KShs '000	Total KShs '000
<b>2022:</b>			
At 1 January 2022	1,459,416	82,343	1,541,759
Provisions for impairment	395,518	97,911	493,429
Releases from matured facilities	( 17,248)	( 3,746)	( 20,994)
Charge for the year	378,270	94,165	472,435
Written off during the year	( 146,402)	( 1,585)	( 147,987)
<b>At 31 December 2022</b>	<b><u>1,691,284</u></b>	<b><u>174,923</u></b>	<b><u>1,866,207</u></b>
<b>2021:</b>			
At 1 January 2021	1,923,700	149,327	2,073,027
Provisions for impairment	266,492	( 59,160)	207,332
Releases from matured facilities	( 16,624)	( 7,797)	( 24,421)
Charge for the year	249,868	( 66,957)	182,911
Written off during the year	( 714,152)	( 27)	( 714,179)
<b>At 31 December 2021</b>	<b><u>1,459,416</u></b>	<b><u>82,343</u></b>	<b><u>1,541,759</u></b>

### 17. OTHER ASSETS

	2022 KShs'000	2021 KShs '000
Items in the course of collection	65,051	110,379
Prepayments	137,136	129,953
Refundable deposits	28,046	25,344
Other receivables	560,550	257,183
	<b><u>790,783</u></b>	<b><u>522,859</u></b>

### 18. INVESTMENT IN SUBSIDIARY

GAB Takaful Insurance Agency Limited	<u>1,000</u>	<u>1,000</u>
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GAB Takaful Insurance Agency Limited is a wholly owned subsidiary of the Bank incorporated in Kenya. The company offers Bancassurance services. The investment in the subsidiary is measured at cost less accumulated impairment loss. The subsidiary is dormant.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 19. INTANGIBLE ASSETS

	Computer software KShs'000	Capital work-in- progress KShs'000	Total KShs'000
<b>2022:</b>			
<b>Cost</b>			
At 1 January 2022	543,514	26,653	570,167
Additions during the year	37,111	18,458	55,569
Transfers from work in progress	<u>33,223</u>	<u>(33,223)</u>	<u>-</u>
At 31 December 2022	<u>613,848</u>	<u>11,888</u>	<u>625,736</u>
<b>Amortisation</b>			
At 1 January 2022	389,263	-	389,263
Charge for the year	<u>57,698</u>	<u>-</u>	<u>57,698</u>
At 31 December 2022	<u>446,961</u>	<u>-</u>	<u>446,961</u>
<b>Carrying amount</b>			
<b>At 31 December 2022</b>	<b><u>166,887</u></b>	<b><u>11,888</u></b>	<b><u>178,775</u></b>
<b>2021:</b>			
<b>Cost</b>			
At 1 January 2021	496,375	50,474	546,849
Additions during the year	7,504	15,814	23,318
Transfers from work in progress	<u>39,635</u>	<u>(39,635)</u>	<u>-</u>
At 31 December 2021	<u>543,514</u>	<u>26,653</u>	<u>570,167</u>
<b>Amortisation</b>			
At 1 January 2021	329,800	-	329,800
Charge for the year	<u>59,463</u>	<u>-</u>	<u>59,463</u>
At 31 December 2021	<u>389,263</u>	<u>-</u>	<u>389,263</u>
<b>Carrying amount</b>			
<b>At 31 December 2021</b>	<b><u>154,251</u></b>	<b><u>26,653</u></b>	<b><u>180,904</u></b>

Intangible assets comprise capitalised computer software costs which are amortised over an estimated useful life of five years.

Capital work in progress relates to computer software licences and customisation charges for software acquired but not yet commissioned for use.

**GULF AFRICAN BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

**20. PROPERTY AND EQUIPMENT**

<b>2022:</b>	<b>Leasehold improvements &amp; right- of- use lease assets</b>	<b>Computers, equipment, furniture &amp; fittings</b>	<b>Motor vehicles</b>	<b>Capital work in progress</b>	<b>Total</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>Cost</b>					
At 1 January 2022	994,072	670,618	23,423	13,842	1,701,955
Additions during the year	4,091	61,794	17,043	4,720	87,648
Transfers from work in progress	2,207	11,635	-	(13,842)	-
Disposals	( 50,883)	-	( 6,580)	-	( 57,463)
Derecognition of lease assets	(61,021)	-	-	-	( 61,021)
Re-measurement of right of use lease assets	( 59,856)	-	-	-	( 59,856)
At 31 December 2022	<u>828,610</u>	<u>744,047</u>	<u>33,886</u>	<u>4,720</u>	<u>1,611,263</u>
<b>Depreciation</b>					
At 1 January 2022	630,834	517,145	23,423	-	1,171,402
Charge for the year	79,699	62,951	1,786	-	144,436
Disposals-Leaseholds	( 48,544)	-	( 6,580)	-	( 55,124)
Derecognition of lease assets	( 26,831)	-	-	-	( 26,831)
Re-measurement of right of use lease assets	( 115,544)	-	-	-	( 115,544)
At 31 December 2022	<u>519,614</u>	<u>580,096</u>	<u>18,629</u>	<u>-</u>	<u>1,118,339</u>
<b>Carrying amount</b>					
At 31 December 2022	<u><b>308,996</b></u>	<u><b>163,951</b></u>	<u><b>15,257</b></u>	<u><b>4,720</b></u>	<u><b>492,924</b></u>
<b>2021:</b>					
<b>Cost</b>					
At 1 January 2021	1,117,719	633,452	23,423	11,780	1,786,374
Additions during the year	10,616	51,300	-	13,842	75,758
Transfers from work in progress	11,520	260	-	(11,780)	-
Disposals-leaseholds	( 13,905)	( 14,394)	-	-	( 28,299)
Derecognition of lease assets	( 76,363)	-	-	-	( 76,363)
Re-measurement of right of use lease assets	( 55,515)	-	-	-	( 55,515)
At 31 December 2021	<u>994,072</u>	<u>670,618</u>	<u>23,423</u>	<u>13,842</u>	<u>1,701,955</u>
<b>Depreciation</b>					
At 1 January 2021	577,318	465,357	23,423	-	1,066,098
Charge for the year	88,864	66,067	-	-	154,931
Disposals	( 13,776)	( 14,279)	-	-	( 28,055)
Derecognition of lease assets	( 21,572)	-	-	-	( 21,572)
At 31 December 2021	<u>630,834</u>	<u>517,145</u>	<u>23,423</u>	<u>-</u>	<u>1,171,402</u>
<b>Carrying amount</b>					
At 31 December 2021	<u><b>363,238</b></u>	<u><b>153,473</b></u>	<u><b>-</b></u>	<u><b>13,842</b></u>	<u><b>530,553</b></u>

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 20. PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment as at 31 December 2022 is right-of-use lease assets of KShs 246,668,000 (2021 – KShs 286,675,000) which relates to leases of the Bank's branches and office premises. The associated depreciation on the right-of-use assets in 2022 is KShs 61,506,000 (2021 – KShs 68,857,000) as indicated under Note 30.

Included in property and equipment as at 31 December 2022 are assets with gross value of KShs 1,159,465,000 (2021 – KShs 1,017,800,000) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 239,009,000 (2021 – KShs 205,849,000).

Capital work- in- progress mainly relates to business-premises security installations and other projects on-going as at the end of the year.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2021 – Nil).

### 21. DEFERRED TAX ASSET

The Deferred tax asset at 31 December 2022 and 31 December 2021 is attributable to the following:

	<u>Recognised through</u> <u>retained earnings</u>		<u>Recognised in</u> <u>profit or loss</u>		
	1 January 2022	Prior year adjustment	Prior year adjustment	Current year adjustment	31 December 2022
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Asset:</b>					
Property and equipment	56,578	-	(8,234)	8,479	56,823
Provisions	598,331	-	-	(178,473)	419,858
Leases	( 26,054)	-	52,108	( 11,325)	14,729
Unrealised gains and losses	_____ -	_____ -	(44,410)	44,410	_____ -
	<u><b>628,855</b></u>	<u><b>-</b></u>	<u><b>( 536)</b></u>	<u><b>(136,909)</b></u>	<u><b>491,410</b></u>

	<u>Recognised through</u> <u>retained earnings</u>		<u>Recognised in</u> <u>profit or loss</u>		
	1 January 2021	Prior year adjustment	Prior year adjustment	Current year adjustment	31 December 2021
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Asset:</b>					
Property and equipment	40,418	-	6,299	9,861	56,578
Provisions	292,372	-	(13,789)	319,748	598,331
Leases	-	-	(21,609)	( 4,445)	( 26,054)
Unrealised gains and losses	54,235	_____ -	_____ -	( 54,235)	_____ -
	<u><b>387,025</b></u>	<u><b>-</b></u>	<u><b>(29,099)</b></u>	<u><b>270,929</b></u>	<u><b>628,855</b></u>

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

22. DEPOSITS FROM CUSTOMERS	2022 KShs'000	2021 KShs'000
Current accounts	22,382,292	20,156,725
Savings deposits	1,311,189	1,217,754
Time deposits	7,153,322	7,447,457
Margin deposits	<u>520,996</u>	<u>348,947</u>
	<b><u>31,367,799</u></b>	<b><u>29,170,883</u></b>
<b>Repayable:</b>		
On demand	24,214,477	21,723,426
Within 3 months or less	3,644,893	4,697,813
After 3 months	<u>3,508,429</u>	<u>2,749,644</u>
	<b><u>31,367,799</u></b>	<b><u>29,170,883</u></b>

## 23. OTHER LIABILITIES

Lease liabilities	295,764	373,523
Outstanding bankers' cheques	39,243	32,700
Welfare and charitable fund (Note 24)	873	998
Accruals	293,156	282,177
Other	<u>137,837</u>	<u>126,001</u>
	<b><u>766,873</u></b>	<b><u>815,399</u></b>

Included in other liabilities as at 31 December 2022 is lease liabilities of KShs 295,764,000 (2021 – KShs 373,523,000) as indicated under Note 30(b).

24. WELFARE AND CHARITABLE FUND	2022 KShs'000	2021 KShs'000
At 1 January	998	2,005
Additions during the year	13,319	18,212
Donated to charitable activities	<u>(13,444)</u>	<u>(19,219)</u>
<b>At 31 December</b>	<b><u>873</u></b>	<b><u>998</u></b>

Transfers to welfare and charitable fund represents income deemed to be non-Shari'ah compliant either because it is from a non-Shari'ah compliant source or the underlying transactions had been found to be in breach of Shari'ah principles. Charges for non-timely payment by customers are another source of transfers. Transfers to welfare and charitable fund are channelled through Gulf African Bank Foundation, with the oversight of the Shari'ah Supervisory Board.

## 25. FINANCING LIABILITIES

The Bank entered into a long-term financing under Wakala arrangements of USD 17,000,000 with Trade and Development Bank whereby the Bank received USD 4,000,000 in May 2017 and USD 13,000,000 in December 2018. Both tranche of the subordinated and unsecured financing were for a term of 5 years 6 months with semi-annual profit payments. The Bank sought and was granted permission to settle the Wakala amounting to KShs 1,931,610,000 before maturity. Both tranches were settled within the year 2022. The return paid on the Wakala is KShs 89,129,000 (2021 – KShs 136,325,000).



# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 26. SHARE CAPITAL AND RESERVES

#### (a) Share capital

	Number of ordinary share	Value KShs '000
<b>Authorised</b>		
At 1 January and 31 December 2021 and 2022		
Ordinary shares of KShs 20 each	<u>20,000,000</u>	<u>20,000,000</u>
<b>Number of ordinary shares issued and fully paid</b>	<b>2022</b>	<b>2021</b>
At 1 January and 31 December	<u>18,316,193</u>	<u>18,316,193</u>
<b>Value of ordinary shares issued and fully paid</b>	<b>KShs'000</b>	<b>KShs '000</b>
At 1 January and 31 December	<u>366,324</u>	<u>366,324</u>

All ordinary shares rank equally with regard to the Bank's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

#### (b) Share premium

These reserves arose when the shares of the Bank were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

	2022 KShs'000	2021 KShs '000
At 31 December	<u>2,282,112</u>	<u>2,282,112</u>

#### (c) Statutory credit risk reserve

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's Prudential Guidelines on impairment of financing assets. It represents the excess financing arrangement provision as computed in accordance with Central Bank of Kenya's Prudential Guidelines over the impairment arrived at in accordance with International Financial Reporting Standard (IFRS 9).

Where impairment in accordance with IFRS 9 is equal or higher than the impairment as per the Prudential Guidelines of the Central Bank of Kenya, there is no appropriation of this reserve.

### 27. NOTE TO THE CASH FLOW STATEMENT

	2022 KShs'000	2021 KShs '000
<b>Analysis of the balance of cash and cash equivalent</b>		
Cash balances (Note 14)	1,058,729	997,566
Unrestricted balances with the Central Bank of Kenya	895,851	82,125
Deposits and balances due from banking institutions (Note 15(c))	<u>9,864,735</u>	<u>6,593,172</u>
	<u>11,819,315</u>	<u>7,672,863</u>

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 28. OFF-BALANCE SHEET CONTINGENCIES AND COMMITMENTS

(a) Contingent liabilities	2022 KShs'000	2021 KShs'000
Guarantees	1,094,531	922,076
Letters of credit	283,985	279,904
Bills for collection	795,147	659,418
Foreign exchange spot and forward contracts	<u>1,665,225</u>	<u>1,526,826</u>
	<b><u>3,838,888</u></b>	<b><u>3,388,224</u></b>

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

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

*Bills for collection* are undertakings by the Bank to collect money from their customers for payment to a third party. They do not bestow any obligations to the Bank.

*Foreign exchange forward contracts* are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date or at an agreed rate on a Shari'ah compliant basis.

(b) Commitments	2022 KShs'000	2021 KShs '000
Undrawn commitments	578,394	657,036
Purchase of property and equipment	<u>9,079</u>	<u>6,852</u>

Undrawn commitments relate to agreements to finance a customer in future, subject to certain conditions, and are normally for a fixed period.

### 29. RELATED PARTY TRANSACTIONS

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 and operational decisions.

In the normal course of business, a number of banking transactions, such as financing arrangements, deposits and foreign currency transactions are entered into with related parties' i.e. key management, directors, their associates and companies controlled by directors.

Below are details of transactions with related parties for the Bank.

#### (a) Financing arrangements to companies associated with directors

As at reporting date, there were no outstanding financial arrangements to directors and companies associated with directors (2021 – KShs Nil). There was no profit earned during the year on financing arrangements granted to companies associated with directors (2021 – Nil).

Balances associated with the Executive Director are reported under Key Management.

Off balance sheet financing outstanding with companies associated with directors amounted to KShs 3,000,000 (2021 – KShs 3,000,000).

The outstanding amounts relating to companies associated with directors are performing and adequately secured.

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 29. RELATED PARTY TRANSACTIONS (Continued)

(b) Financing arrangements – Key Management	2022 KShs'000	2021 KShs'000
At 1 January	106,119	171,452
Advanced during the year	45,932	20,207
Repaid during the year	( 83,295)	( 85,540)
<b>At 31 December</b>	<b><u>68,756</u></b>	<b><u>106,119</u></b>

Profit earned on financing arrangements to key management amounted to KShs 7,263,000 (2021 – KShs 7,136,000).

Included in financing arrangements for key management is financing arrangements relating to the Executive director. These financing arrangements to key management are performing and are adequately secured.

(c) Deposits – Directors and their Associates	2022 KShs '000	2021 KShs'000
At 1 January	1,058,815	527,033
Deposits during the year	2,369,396	1,779,284
Withdrawals during the year	(2,225,969)	(1,247,502)
<b>At 31 December</b>	<b><u>1,202,242</u></b>	<b><u>1,058,815</u></b>

Profit expense paid to directors and their associates during the year

	<u><u>5,357</u></u>	<u><u>5,024</u></u>
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(d) Deposits – key management		
At 1 January	35,838	34,839
Deposits during the year	318,691	293,942
Withdrawals during the year	( 314,911)	( 292,943)
<b>At 31 December</b>	<b><u>39,618</u></b>	<b><u>35,838</u></b>
Profit expense paid to staff during the year	<u><u>245</u></u>	<u><u>476</u></u>

#### (e) Key management personnel compensation

Salaries and other short-term employment benefits	<u><u>168,560</u></u>	<u><u>187,269</u></u>
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Key Management Personnel represent Senior Management Team (SMT).

All outstanding balances with key management personnel are performing. No stage 2 or stage 3 impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

(f) Directors' remuneration	2022 KShs'000	2021 KShs'000
Fees for services as directors	37,350	34,273
Other remuneration	<u><u>22,835</u></u>	<u><u>38,383</u></u>

*Other remuneration includes salary for the Executive Director*

# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **30. LEASES**

The Bank leases a number of premises for head office and the branches. The leases typically run for an initial period of between five and ten years with an option to renew the lease at the expiry of the lease.

Previously, these leases were classified as operating leases under IAS 17. The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term; and
- The company has discounted lease payments using incremental borrowing rate of 13%.

Information about leases for which the Bank is a lessee is presented below.

#### **(a) Right-of-use assets**

Right-of-use assets relate to leased head office and branch office premises that are presented within property and equipment under Note 20:

	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Balance at 1 January	286,675	465,838
Depreciation charge for the year	( 61,506)	( 68,857)
De-recognition of lease assets (Note 20)	( 34,190)	( 54,791)
Re-measurement (Note 20)	<u>55,689</u>	<u>( 55,515)</u>
<b>At 31 December</b>	<b><u>246,668</u></b>	<b><u>286,675</u></b>

#### **(b) Lease liabilities**

Included in other liabilities (Note 23) are lease liabilities amounting to KShs 295,764 (2021 – KShs 373,523,000).

<b>Lease liabilities movement</b>	<b>2022</b>	<b>2021</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Balance at 1 January	373,523	537,868
Profit expense	45,280	57,066
Lease payments	( 87,606)	(100,549)
Re-measurement	10,145	( 55,515)
De-recognition of terminated leases	<u>( 45,578)</u>	<u>( 65,347)</u>
<b>At 31 December</b>	<b><u>295,764</u></b>	<b><u>373,523</u></b>

# GULF AFRICAN BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

### 30. LEASES (Continued)

(c) Amount recognised in profit or loss	2022 KShs'000	2021 KShs'000
Finance cost on lease liabilities (Note 9(b))	45,280	57,066
Expenses relating to low value assets and other related expenses	<u>47,357</u>	<u>39,548</u>
<b>At 31 December</b>	<b><u>92,637</u></b>	<b><u>96,614</u></b>
(d) Amount recognised in the statement of cash flows		
Total cash outflow for leases	<u><b>42,327</b></u>	<u><b>43,483</b></u>

### 31. SHARE-BASED PAYMENTS ARRANGEMENTS

On 18 September 2012, the Bank established an Employee Share Ownership Plan (ESOP) for the purpose of facilitating employees to participate in the growth of the Bank, attracting and retaining skilled staff and to reward and recognise employees for their contribution to the Bank. The plan became operational in the second quarter of 2014.

The Bank's Employee Share Ownership Plan (ESOP) is established as a trust. Employees are entitled to purchase units in the ESOP Trust at a price determined by the Board of Directors having regard to the value of a share on the book value of shares as determined by the audited or unaudited published financial statements of the previous quarter. Each unit represents an ordinary share in the Bank.

All permanent employees of the Bank aged 19 years and above are eligible to participate in the Employee Share Ownership Plan. The employees are given an option to buy a fixed number of Units, at the end of each quarter equivalent to 10% of their previous quarter's salary. Additionally, where an employee's annual performance rating is within the top 5% of all staff in the Bank, they are awarded options to purchase additional Units. Units are made available for purchase at the end of every quarter. Each unit is granted on a conditional basis and vests after 3 years. At the vesting date, employees must sell the units back to the Trust.

Employees may redeem their units after each third anniversary of the date of grant of the Units through sale of units. If an employee ceases to be an employee of the Bank before the agreed Vesting date, the Trustees shall purchase the units at the price at which they were offered. Any options that have not been exercised prior to ceasing employment lapse. Where the reason for cessation of employment is due to death or bankruptcy, the redemption amount is paid to the employee's dependents or personal representatives or any other person entitled under the law.

Movement in the number of units held for the employees under the Employee Share Ownership Plan is as follows:

	2022	Weighted average exercise price - KShs	2021	Weighted average exercise price - KShs
	Number of shares		Number of shares	
Outstanding at 1 January	394,797	298.78	394,342	274.55
Exercised	( 33)	-	( 102)	-
Redemption during the year	-	-	557	-
<b>Outstanding at 31 December</b>	<b><u>394,764</u></b>	<b>-</b>	<b><u>394,797</u></b>	<b>-</b>
<b>Exercisable at 31 December</b>	<b><u>394,764</u></b>	<b>-</b>	<b><u>394,797</u></b>	<b>-</b>



# **GULF AFRICAN BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

### **31. SHARE-BASED PAYMENTS ARRANGEMENTS (Continued)**

The shares outstanding at 31 December 2022 had an exercise price of KShs 329.10 (2021 – KShs 298.80).

The share price is determined as the book value of the Bank's share at the date the option is exercised. The book value is determined in each quarter of every year. Management has determined that the book value estimates the fair value of the options. The gains on redemption of units has been accounted for in the profit and loss account.

### **32. DIVIDENDS**

Dividends are recognized as a liability in the period in which they are declared. No dividend is to be proposed at the Annual General Meeting in respect of year ended 31 December 2022 (2021 – Nil).

### **33. ASSETS PLEDGED AS SECURITY**

As at 31 December 2022, there were no assets held as lien with commercial banks (2021 – Nil). As at the same date, the Bank was holding Treasury bonds amounting to KShs 51,350,000 (2021 – KShs 51,350,000) as lien from other commercial banks and customers.

### **34. CONSOLIDATION OF SUBSIDIARY**

Statement required to be made by virtue of the provisions of paragraph 644(2) of the Kenyan Companies Act, 2015.

- (a) Group financial statements have not been prepared as in the opinion of the Directors their preparation would involve expense out of proportion to the value to the Bank. In the opinion of the Directors, the operations of the subsidiary are considered immaterial.
- (b) Net aggregate amounts of profit or loss of subsidiary so far as they concern members of the company are as follows:

	<b>Current year KShs'000</b>	<b>Total cumulative to current year KShs'000</b>	<b>Prior year KShs'000</b>	<b>Total cumulative to end of prior year KShs'000</b>
Loss not dealt with in the financial statements of the Bank	<b><u>2,984</u></b>	<b><u>(16,544)</u></b>	<b><u>(194)</u></b>	<b><u>(19,528)</u></b>

### **35. EVENTS AFTER THE REPORTING PERIOD**

The Directors are not aware of events after the reporting date that require disclosure or adjustment to these financial statements as at the date of this report.

## **GULF AFRICAN BANK LIMITED**

### **APPENDIX TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 31 DECEMBER 2022 (UNAUDITED)**

#### **Zakah information**

The Bank **informs** the shareholders of their obligation to pay Zakah. Zakah has not been recognised in the statement of profit or loss and other comprehensive income as an expense.

The total Zakah payable by the shareholders for 2022 has been determined by the Shari'ah Supervisory Board as KShs 7.54 (2021 – KShs 9.42) per share. Under FAS 9, Zakah payable for the year ended 2022 was calculated at 2.577% (2021 – 2.577%) of the Zakah base of KShs 5,356,100,000 (2021 – KShs 6,692,848,000) which was determined on the Net Invested Funds method.