KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

ANNUAL REPORT & FINANCIAL STATEMENTS

31 DECEMBER 2020

KINGDOM BANK

A Subsidiary of The Co-operative Bank of Kenya

KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

CORPORATE INFORMATION

BOARD OF DIRECTORS	Mrs. Margaret Karangatha	Chairperson	Appointed, 18.09.2020
	Mr. Macloud Malonza		Appointed, 18.09.2020
	Mr. Gideon Muriuki		Appointed, 18.09.2020
	Mr. Juilius Sitienei		Appointed, 18.09.2020
	Mr. Anthony Mburu	Managing Director & CEO	Appointed, 18.09.2020
	Mr. Richard Kiplagat		Resigned, 18.09.2020
	Mr. Stefan Kaiser*		Resigned, 18.09.2020
	Mr. Paul D. P. Nyamodi		Resigned, 18.09.2020
	Mr. Samuel G. Mburu		Resigned, 18.09.2020
	Mr. Timothy Kabiru		Resigned, 18.09.2020
	* Swedish		
AUDIT COMMITTEE	Mr. Samuel G.Mburu	Chairman	
	Mr. Stefan Kaiser		
CREDIT COMMITTEE	Mr. Paul D. P. Nyamodi	Chairman	
	Chief Operations Officer		
HUMAN RESOURCES COMMITTEE	Mr. Paul D. P. Nyamodi	Chairman	
	Mr. Stefan Kaiser		
STRATEGY AND INVESTMENTS COMMITTEE	Richard Kiplagat	Chairman	
	Mr. Stefan Kaiser		
	Timothy Kabiru		
ASSETS AND LIABILITIES COMMITTEE	Mr. Samuel G. Mburu	Chairman	
	Mr. Timothy Kabiru		

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

CORPORATE INFORMATION (Continued)

COMPANY SECRETARY	Image Registrars Certified Public Secretaries (Kenya) Fifth Floor, Barclays Plaza, Loita Street P.O. Box 61120 - 00100 Nairobi
REGISTERED OFFICE	Kingdom Bank Towers Argwings Kodhek Road P.O. Box 22741 - 00400 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P.O. Box 40092 - 00100 Nairobi
PRINCIPAL LEGAL ADVISERS	Walker Kontos Advocates Hakika House, Bishops Road P.O. Box 60680 - 00200 Nairobi

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

REPORT OF THE DIRECTORS

The directors submit their annual report and the audited financial statements of Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) (the "Bank") and its subsidiaries (together, the "group") for the year ended 31 December 2020 which shows the state of financial affairs of the Group and the Bank.

CHANGE OF NAME

With effect from 18 September 2020, Jamii Bora Bank Limited was acquired by The Co-operative Bank of Kenya Limited (Co-operative Bank). This was achieved through subscription by Co-operative Bank of 224,153,541 new ordinary shares at Ksh 4.46 per share for a consideration of Ksh 1,000,000,000 giving Co-operative Bank an equivalent of 90% controlling stake with effect from 18 September 2020. The Bank changed its name from Jamii Bora Bank Limited to Kingdom Bank Limited with effect from 18 September 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of banking and related services, insurance agency services, and equipment leasing services.

GROUP RESULTS FOR THE YEAR

	Group		Bank	
	2020	2019	2020	2019
	Sh'000	Sh'000	Sh '000	Sh'000
Loss before taxation	(76,326)	(1,183,909)	(124,145)	(1,240,251)
Taxation (charge)/credit	(93,578)	160,501	(76,759)	177,016
Net loss for the year	(169,904)	(1,023,408)	(200,904)	(1,063,235)

CONSOLIDATED INFORMATION

The Bank has two registered subsidiary companies, Jamii Bora Leasing Limited and Jamii Bora Insurance Agency Limited, which commenced operations in the year 2019 and 2015 respectively.

The consolidated information relates to the operations of the Bank and the two subsidiaries.

DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019 – Sh nil).

DIRECTORS

The present board of directors are shown on page 2. Mr. Stefan Kaiser, Mr. Richard Kiplagat, Mr. Timothy Kabiru, Mr. Paul D.P. Nyamodi and Mr. Samuel G. Mburu ceased to be directors with effect from 18 September 2020.

Mrs. Margaret Karangatha, Mr. Macloud Malonza, Mr. Gideon Muriuki - CBS, MBS, Mr. Juilius Sitienei, Mr. Anthony Mburu were appointed as directors on 18 September 2020.

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

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

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

REPORT OF THE DIRECTORS (continued)

BUSINESS REVIEW

Following successful negotiations, with effect from 18 September 2020, Jamii Bora Bank Limited was acquired by The Co-operative Bank of Kenya Limited (Co-operative Bank). This was achieved through subscription by Co-operative Bank of 224,153,541 new ordinary shares at Ksh 4.46 per share for a consideration of Sh 1,000,000,000 giving Co-operative Bank an equivalent of 90% controlling stake and new entity "Kingdom Bank Limited" was born.

The Bank review

Operating Environment

In the year 2020 however, the Kenyan economy was hit hard by supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path. Apart from the COVID-19 (coronavirus) pandemic, the locust attack which started in early 2020, has affected many parts of Kenya especially the North East. It has had a negative impact on the food security and growth of the agriculture sector in the country.

Real gross domestic product (GDP) growth declined from an annual average of 5.7% in 2019 to 1.5% in 2020 with further contraction expected to 1%, if takes longer than expected to bring the COVID-19 pandemic under control and see a delay in the projected recovery to 5.2% growth in 2021.

The downside risks include a protracted global recession undermining Kenya's export, tourism and remittance inflows, further tightening of COVID-19 health response measures that disrupt the domestic economic activity, fiscal slippages and weather-related shocks which have led to Increased Non-performing loans (NPLs) in the industry due to customers not being able to meet their obligations as a result of a deteriorating business environment.

The World Bank support to Kenya's pandemic response includes emergency funding to strengthen medical services and reduce the spread of the virus, as well as budget support to help close the fiscal financing gap while supporting reforms that help advance the government's inclusive growth agenda has gone along way towards mitigating the effects of the COVID-19 pandemic.

The situation in the country continues to affect the abilities of our customers to service their loans obligations. However, the Bank continued to actively engage the customers despite the prevailing situation.

Market Description and Branch Networks

The Bank has a footprint 17 branches and 3 agencies serving over 136,000 customers.

Products and Services

Over the years, Jamii Bora Bank has developed several products in response to the needs of its clients. Because these needs are dynamic and keep changing according to social economic trends, Jamii Bora Bank commits to remain relevant to its clientele. Jamii Bora Bank's products and services which are customer centric range from current accounts, savings accounts, term accounts, term loans, business loans as well as insurance products.

Risk Management

The Bank has put in place a robust risk management and corporate governance framework that scopes and explains the components of business risks, financial risks, operational risks as well as detailing the mitigation and response plans for each category of risk. The year ended 31 December 2020 was characterized by a myriad of risks ranging from uncertainties in the political environment and a turbulent operating environment which led to tight liquidity stances as well as drought which hampered productivity in the agricultural sector. The Bank will continue to monitor all risks affecting its business to ensure appropriate actions are taken to reduce potential impact.

Refer to note 4 of the financial statements for a description of the Bank's financial risks and how they are mitigated.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

REPORT OF THE DIRECTORS (continued)

Future Outlook

The Bank maintains a positive outlook of the industry and country as a whole and anticipates an improved performance into 2021. The Bank will continue positioning itself through customer empowerment by offering meaningful financial education, proactively addressing customer needs, community empowerment, offering under one roof integrated financial services. This also includes increasing the penetration and visibility of the digital footprint.

The year 2021 is expected to be more favorable than 2020 with the discovery of a COVID-19 vaccine to contain the corona virus pandemic and the injection of new capital into the Bank by the majority shareholder -The Co-operative Bank of Kenya Limited (CBKL) to support business.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

Secretary

Nairobi, Kenya

2021

KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

STATEMENT ON CORPORATE GOVERNANCE

BOARD OF DIRECTORS

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED) is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the Bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 2.

The Board is responsible for formulating bank's policies, strategies, and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Bank and implements corporate governance policies of the Bank.

The Board comprises four non-executive directors and one executive director. The directors have diverse skills and are drawn from various sectors of the economy. The Board is committed to the highest standards of corporate governance and best practice in management of the Bank's affairs.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the Board convened and held seven ordinary meetings.

The Bank's Secretary sits in the Board meetings and is responsible for monitoring and coordinating the completion and dispatch of Board and committee agenda, papers and other briefing materials. The secretary is always available to the Board of Directors.

a) Board evaluation

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees, an annual self-evaluation review is undertaken. The self-evaluation reviews the capacity, functionality and effectiveness of the Board and individual directors during the financial year. The review is also in accordance with the requirements of the Central Bank of Kenya Prudential Guidelines on Corporate Governance.
The evaluation measures the performance of the Board against its key duties and responsibilities, that of its committees and individual members of the Board. The annual board evaluation was carried out in February 2020 and a similar one is scheduled for 2021.

b) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 36(e) to the financial statements for the year ended 31 December 2020. The Bank advanced loans to Directors and their associated companies as disclosed in Note 36.

c) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in Note 36 to the financial statements for the year ended 31 December 2021.

2. BOARD COMMITTEES

The Board has in place five committees, namely the Credit Committee, Audit Committee, Strategy and Investment committee, Assets and Liabilities Committee and the Human Resources Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

2. BOARD COMMITTEES (CONTINUED)

These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Bank's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day-to-day running of the Bank is delegated to the Chief Executive Officer.

Credit Committee

This committee reviews all lending to ensure that they are undertaken per the Bank's policy framework, are within legal framework, Central Bank Prudential Guidelines and meet risk guidelines. Delegated lending to management are monitored via reviewing of lending reports to ensure that the Bank's policies are adhered to.

Audit Committee

The committee reviews internal controls as well as overall responsibility over operations, legal and regulatory compliance as well as information systems.

Strategy and Investment Committee:

The committee spearheads the review of the Bank's strategy to ensure that the Bank has a sound strategy, the capacity to implement it, and propose a funding strategy to support the implementation of the strategy.

Assets and Liabilities Investment Committee:

This committee manages the investment function of the Bank to maximize portfolio yield over the long term in a manner that is consistent with liquidity needs as per bank set limits and CBK regulatory guidelines, loans requirements, asset/liability management strategies and safety of the principal. The ultimate goal is the attainment of the highest rate of return consistent with the goals of the Bank and in line with the best Asset/Liability processes.

Human Resource Committee

This committee manages the Human Resource function of the Bank by ensuring that the Bank hires and retains the best human resources, rewards them appropriately and ensures that performance appraisal systems are working well.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The Bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. The Bank has in place a chain of controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its decants, intermediaries, retrocession Aires, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

STATEMENT ON CORPORATE GOVERNANCE (Continued)

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the Bank recognises the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The Bank assists its staff to undertake continuous professional and development training programs to fulfil their potential. This process is appropriately managed to align staff development with the Bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. SHAREHOLDERS

The composition of shareholders and their individual holdings at the year ended 2020 and 2019 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines.

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets at least once per quarter. Committee meetings are held on monthly basis. Additional meetings are also held as demanded by special circumstances. During 2020, the Board held seven meetings. Attendance of Board meetings by directors was as follows:

Name	Number of meetings held while in office	Number of meetings attended	Percentage of meetings attended	Date joined/(resigned)
Mr. Stefan Kaiser	10	6	60%	Resigned, 18 September 2020
Mr. Richard Kiplagat	10	10	100%	Resigned, 18 September 2020
Mr. Timothy Kabiru	10	10	100%	Resigned, 18 September 2020
Mr. Paul D. P. Nyamodi	10	9	90%	Resigned, 18 September 2020
Mr. Samuel G. Mburu	10	10	100%	Resigned, 18 September 2020
Mrs. Margaret Karangatha	2	2	100%	Appointed 18 September 2020
Mr. Macloud Malonza	2	2	100%	Appointed 18 September 2020
Mr. Gideon Muriuki-CBS, MBS	2	2	100%	Appointed 18 September 2020
Mr. Juilius Sitienei	2	2	100%	Appointed 18 September 2020
Mr. Anthony Mburu	2	2	100%	Appointed 18 September 2020

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Director

2021

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act 2015, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the Bank as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure that the Bank and its subsidiaries keep proper accounting records that are sufficient to show and explain the transactions of the group and which disclose, with reasonable accuracy, the financial position of the group. The Directors are also responsible for safeguarding the assets of the Group, and for taking reasonable steps for the prevention and detection of fraud and error.

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

The directors also accept responsibility for:

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently; and

iii) making accounting estimates and judgements that are reasonable in the circumstances.

Whilst the Group and the Bank is currently undergoing a financial and operation restructuring program, the Directors believe that the Group and the Bank will continue to be a going concern for at least the next twelve months from the date of this statement. The directors have disclosed the status of the Group as a going concern in note 3(b) to the financial statements.

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

Approved by the board of directors on   2021 and signed on its behalf by:

-- Chairperson

-- Managing Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

Report on the Audit of the Consolidated and the Bank Financial Statements

Opinion

We have audited the accompanying consolidated and bank financial statements of Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) (the "Bank") and its subsidiaries (together, the "Group"), set out on pages 14 to 88, which comprise the consolidated and bank statements of financial position as at 31 December 2020, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated and bank statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the audit of the consolidated and the Bank financial statements* section of this report. We are independent of the Group and the Bank in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to note 33 in the financial statements, which discloses a significant business transaction that occurred subsequent to the end of the financial year. The note indicates that the Bank was acquired by The Co-operative Bank of Kenya Limited (Co-operative Bank) pursuant to an investment of Sh 1,000,000,000 paid into the bank as a subscription for a new class of ordinary shares. These new shares were created and designated to rank pari-passu with the existing ordinary shares and gives Co-operative Bank an equivalent of 90% controlling stake in the bank. The business transaction was concluded on 18 September 2020.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED) (Continued)

Report on the Audit of the Consolidated and the Bank Financial Statements (Continued)

Other information

The Directors are responsible for the other information, which comprises the report of the directors, statement on corporate governance and the statement of directors' responsibilities. The other information does not include the consolidated and the Bank's financial statements and our auditors' report thereon. Our opinion on the consolidated and bank financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Consolidated and the Bank Financial Statements

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

In preparing the consolidated and the Bank financial statements, the Directors are responsible for assessing the Group and Bank's ability to continue as going concerns, 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 and its subsidiaries or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Group and the Bank's financial reporting process.

Auditors' responsibilities for the audit of the Consolidated and the Bank Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and the Bank 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 ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and bank financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and bank financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED) (Continued)

Report on the Audit of the Consolidated and the Bank Financial Statements (Continued)

Auditors' responsibilities for the audit of the Consolidated and the Bank Financial Statements (Continued)

- 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 Group's and Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and the Bank's 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 auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and the Bank financial statements, including the disclosures, and whether the consolidated and the Bank financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Bank to express an opinion on the consolidated and the Bank financial statements. We are responsible for the direction, supervision and performance of the Group and the Bank audit. We remain solely responsible for our audit opinion.

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

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

In our opinion the information given in the report of the directors on pages 4, 5 and 6 is consistent with the consolidated and bank financial statements.

Certified Public Accountants (Kenya)
Nairobi **2021**

CPA Fred Okwiri - P/No 1699
Signing partner responsible for the independent audit

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

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

		Group		Bank	
		2020	2019	2020	2019
	Note	Sh'000	Sh'000	Sh'000	Sh'000
INTEREST INCOME	6	1,780,777	670,763	1,780,777	670,763
INTEREST EXPENSE	7	(455,867)	(656,490)	(455,867)	(656,490)
NET INTEREST INCOME		1,324,910	14,273	1,324,910	14,273
Fees and commission income	8 (a)	129,449	164,566	129,449	164,566
Foreign exchange (losses)/gains	8 (b)	(30,101)	978	(30,101)	978
Other operating income/(losses)	9	95,782	113,238	(12,504)	(36,110)
OPERATING INCOME		1,520,040	293,055	1,411,754	143,707
Operating expenses	10	(1,460,192)	(1,266,960)	(1,404,066)	(1,173,460)
Net expected credit loss on financial assets	17	(306,222)	(160,147)	(301,881)	(160,641)
Depreciation on right of use assets	26	(24,599)	(33,676)	(24,599)	(33,676)
Amortisation of interest and deferred benefit on long term loan	30	201,513	-	201,513	-
Interest on lease liabilities	32	(6,866)	(16,181)	(6,866)	(16,181)
LOSS BEFORE TAXATION		(76,326)	(1,183,909)	(124,145)	(1,240,251)
TAXATION (CHARGE)/CREDIT	12	(93,578)	160,501	(76,759)	177,016
LOSS FOR THE YEAR		(169,904)	(1,023,408)	(200,904)	(1,063,235)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Fair value gain on re-measurement of investments measured at FVTOCI	14(b)	98,546	17,703	98,546	17,703
Total other comprehensive income for the year		98,546	17,703	98,546	17,703
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(71,358)	(1,005,705)	(102,358)	(1,045,532)

KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

		Group		Bank	
		2020	2019	2020	2019
	Note	Sh'000	Sh'000	Sh'000	Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	545,670	99,724	545,670	99,724
Government securities	14	21,891,910	507,011	21,891,910	507,011
Deposits and balances due from banking institutions	15	142,596	165,355	142,596	165,355
Loans and advances to customers (net)	16	5,138,261	5,709,563	5,138,261	5,709,563
Other assets	18	1,262,800	547,619	1,086,647	435,696
Corporate tax recoverable	12(c)	109	109	109	109
Property and equipment	19	1,297,787	579,003	1,045,868	307,665
Intangible assets - computer software	20	40,859	88,310	40,859	88,310
Intangible assets-customer relationships	23	-	198,433	-	198,433
Equity investments	22 (a)	16,087	16,662	16,087	16,662
Investment in subsidiaries	22 (b)	-	-	1,139	1,139
Due from related companies	36(c)	-	-	322,571	297,467
Investment property	24	-	788,000	-	788,000
Deferred tax asset	21	289,497	366,626	297,763	374,522
Right of use assets	26	82,480	180,140	82,480	180,140
TOTAL ASSETS		30,708,056	9,246,555	30,611,960	9,169,796
LIABILITIES					
Customer deposits	27	4,973,989	4,712,742	5,081,289	4,794,723
Deposits and balances due to banking institutions	28	2,156,981	2,002,307	2,156,981	2,002,307
Medium term loans	29	847,716	1,187,883	847,716	1,187,883
Long term loan	30	20,758,487	-	20,758,487	-
Other liabilities	31	452,266	668,981	377,677	591,966
Due to related company	36 (b)	134	123	134	123
Corporate tax payable	12(c)	30,755	14,673	-	-
Lease liabilities	32	89,868	190,628	89,868	190,628
TOTAL LIABILITIES		29,310,196	8,777,337	29,312,152	8,767,630
CAPITAL RESOURCES					
Share capital	33	1,867,947	1,643,793	1,867,947	1,643,793
Share premium	33	3,087,449	2,311,603	3,087,449	2,311,603
Revenue deficit		(3,672,433)	(3,502,529)	(3,770,485)	(3,569,581)
Investment revaluation reserve	35	114,897	16,351	114,897	16,351
SHAREHOLDERS' FUNDS		1,397,860	469,218	1,299,808	402,166
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		30,708,056	9,246,555	30,611,960	9,169,796

The financial statements on pages 14 to 88 were approved and authorised for issue by the board of directors on 2021 and were signed on its behalf by:

Director

Chief Executive Officer

Director

Company Secretary

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

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

	Note	Share capital Sh'000	Share premium Sh'000	Revenue deficit Sh'000	Investment revaluation reserve Sh'000	Total Sh'000
At 1 January 2019		1,643,793	2,311,603	(2,479,121)	(1,352)	1,474,923
Total comprehensive loss for the year		-	-	(1,023,408)	17,703	(1,005,705)
At 31 December 2019		1,643,793	2,311,603	(3,502,529)	16,351	469,218
At 1 January 2020		1,643,793	2,311,603	(3,502,529)	16,351	469,218
Issue of shares	33	224,154	775,846	-	-	1,000,000
Total comprehensive loss for the year		-	-	(169,904)	98,546	(71,358)
At 31 December 2020		1,867,947	3,087,449	(3,672,433)	114,897	1,397,860

The revenue deficit relates to the cumulative losses from operations and is distributable.

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of available for sale investments excluding impairment losses. The reserve is not distributable to the shareholders.

KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

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

	Note	Share capital Sh'000	Share premium Sh'000	Revenue deficit Sh'000	Investment revaluation reserve Sh'000	Total Sh'000
At 1 January 2019		1,643,793	2,311,603	(2,506,346)	(1,352)	1,447,698
Total comprehensive loss for the year		-	-	(1,063,235)	17,703	(1,045,532)
At 31 December 2019		1,643,793	2,311,603	(3,569,581)	16,351	402,166
At 1 January 2020		1,643,793	2,311,603	(3,569,581)	16,351	402,165
Issue of shares	33	224,154	775,846	-	-	1,000,000
Total comprehensive loss for the year		-	-	(200,904)	98,546	(102,358)
At 31 December 2020		1,867,947	3,087,449	(3,770,485)	114,897	1,299,808

The revenue deficit relates to the cumulative losses from operations and is distributable.

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of investments measured at fair value through other comprehensive income excluding impairment losses. The reserve is not distributable to the shareholders.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

CONSOLIDATED AND BANK STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

		Group		Bank	
		2020	2019	2020	2019
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in)/generated from operations	34(a)	(21,132,599)	1,091,699	(21,152,618)	985,402
Tax paid	12(c)	(367)	(4,092)	-	-
Net cash (used in)/generated from operating activities		(21,132,966)	1,087,607	(21,152,618)	985,402
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	19	(27,129)	(159,080)	(7,477)	(51,500)
Purchase of investment property	24	-	(217,980)	-	(217,980)
Proceeds from disposal of property and equipment		-	7,225	-	1,850
Net cash used in investing activities		(27,129)	(369,835)	(7,477)	(267,630)
CASH FLOWS FROM FINANCING ACTIVITIES					
Medium term loan repayments	29	(466,156)	(335,446)	(466,156)	(335,446)
Long term loan received	30	20,960,000	-	20,960,000	-
Payment of lease liabilities	32	(29,379)	(39,369)	(29,379)	(39,369)
Proceeds from issue of shares	33	1,000,000	-	1,000,000	-
Corporate bond repayment		-	(511,348)	-	(511,348)
Net cash generated from/(used in) financing activities		21,464,465	(886,163)	21,464,465	(886,163)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		304,370	(168,391)	304,370	(168,391)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(1,988,931)	(1,820,540)	(1,988,931)	(1,820,540)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34(b)	(1,684,561)	(1,988,931)	(1,684,561)	(1,988,931)

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED) (the "bank") together with its subsidiaries (together, "the Group") provide banking and related services. KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED) and its subsidiaries Jamii Bora Insurance Agency Limited and Jamii Bora Leasing Limited are incorporated in Kenya under the Companies Act and are domiciled in Kenya.

The address of the Bank's registered office is as follows:
Kingdom Bank Towers
Argwings Kodhek Road
P.O. Box 22741 – 00400
Nairobi.

The group and the Bank are ultimately owned by the Co-Operative Bank of Kenya Limited which is domiciled and incorporated in Kenya.

2 ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

i) New standards and amendments to published standards effective for the year ended 31 December 2020

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Group's financial statements.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below.

Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2020 (Continued)

Covid-19-Related Rent Concessions Amendment to IFRS 16 (Continued)

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease

In the current financial year, the Group did not apply the practical expedient included in the amendment to IFRS 16 (as issued by the IASB in May 2020). There were no Covid-19 related rent concessions.

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework.

Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 and IAS 8 Definition of material

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2020 (Continued)

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The Group has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Group will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)). Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2020 (Continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a Group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

ii) New and revised IFRS Standards in issue but not yet effective in the year ended 31 December 2020

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

iii) Early adoption of standards

The Group and the Bank did not early adopt new or amended standards in 2020.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

The Bank prepares its financial statements under the historical cost convention as modified to include the revaluation of certain properties and financial instruments that are measured at fair value or revalued amounts at the end of each reporting period, as explained in the accounting policy below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:-

- Level 1 inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement dated.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries for the year ended 31 December 2020. The Bank's subsidiaries is shown in note 22(b).

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power over the investee, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest.

All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. ACCOUNTING POLICIES (Continued)

Investment in subsidiary

Investment in subsidiary companies are stated at cost less impairment loss where applicable.

Interest income and expense

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

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

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

Fees and commission income

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers.

Other fees and commission income, including account servicing fees, commission on local bills discounted and banker's cheques, and placement fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

Foreign currency trading income

This arises from the margins, which are achieved through market making and customer business and from changes in market value caused by movements in exchange rates. It comprises gains fewer losses related to trading assets and liabilities, and includes all realised and unrealised foreign exchange differences.

Intangible assets

Intangible assets comprise the cost of purchased computer software programs and other costs to bring the asset to the usable state. Expenditure is capitalised and amortised using the straight-line method over estimated useful lives, of five years.

Property and equipment

All property and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation and any accumulated impairment losses. Equipment are stated at historical cost less depreciation and any accumulated impairment losses.

2 ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

Increases in the carrying amount of land and buildings arising from revaluations are credited to other comprehensive income and accumulated in a revaluation reserve under a separate heading in the statement of changes in equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are charged to the profit or loss.

Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost or value of property and equipment over their expected useful lives. The rates generally in use are:

Buildings	Over the remaining period of the land lease
Land	Over the remaining period of the land lease
Office partitions	10% per annum
Motor vehicles	25% per annum
Equipment, fixtures and fittings	10% per annum
Computer equipment	20% per annum

Work in progress

Work in progress relates to software development costs for the proposed core banking system and patch up models. Costs include direct labour and other direct expenses incurred in respect to the project. Depreciation of the assets commences when the assets are ready for their intended use.

Investment properties

Investment properties comprise land, buildings, and parts of buildings held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the year in which they arise.

Investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Non-current assets held for sale

The Group classifies a non-current asset as held for sale if, and only if, its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amounts and fair values less estimated selling costs at end of reporting period date.

Impairment loss arising from any subsequent write-down of the carrying amount of an asset identified for sale to fair value less costs to make the sale is charged to profit or loss in the year in which the loss is identified.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values at the date of exchange of assets, liabilities incurred or assumed and equity instruments issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill arising on an acquisition of a business

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, Intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination (Continued)

An intangible asset is derecognised at disposal, or when no further economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets, measured as the difference between the net disposal proceeds and the carrying amount of assets, and are recognized in profit or loss when the asset is derecognised.

Offsetting

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Taxation

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

(i) Current taxation

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

(ii) Deferred taxation

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(iii) Current and deferred tax for the year

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the reporting date. Transactions in foreign currencies during the year are translated at the rates ruling at the dates of the transactions. Exchange gains and losses are dealt with in the profit or loss.

2 ACCOUNTING POLICIES (Continued)

Retirement benefit costs

i) *The Group's defined contribution pension scheme*

The Group operates a defined contribution scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the Bank. Benefits are paid to retiring staff in accordance with the scheme rules. The Group's contribution is charged to profit or loss.

ii) *Statutory defined contribution pension scheme*

The Group also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

iii) *Other employee entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.

Some senior management staff are entitled to gratuity payments. A provision is made for the estimated liability for every month worked and at the expiry of employment contract, the payment is made net of applicable taxes.

Leases

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

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

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

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

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

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of the profit or loss.

Contingent liabilities

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

Comparatives

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

3(a) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses carried forward can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3(a) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (continued)

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

Impairment losses on loans and advances

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

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

The Group and 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, the Group and the Bank provides for 12-month ECLs. These are classified as Stage 1 assets. For credit exposures where there has been a significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

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

(ii) Key sources of estimation and uncertainty

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

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

Probability of default:

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

Loss Given Default:

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

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

Fair value measurement and valuation

Some of the company's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the company uses market – observable data to the extent

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3(a) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)

(ii) Key sources of estimation and uncertainty (continued)

it is available. Where level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

In applying the lessee accounting for operating leases, the directors make assessment on the following matters which impact the recognition and measurement of the right of use assets and lease liabilities:

- Determination of the appropriate lease period in the contracts with extension and or termination options;
- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

3(b) GOING CONCERN

The Group and Bank incurred a net loss after tax of Sh 169 million (2019: Sh 1.02 billion) and Sh 201 million (2019: Sh 1.06 billion) respectively during the year ended 31 December 2020 and, as of that date, the Bank had a regulatory capital ratio of positive (+) 13.8% (2019: negative (-) 2.0%) against the regulatory minimum of 14.5%. The Bank was therefore not in compliance with the minimum regulatory capital requirements as per the regulations by Central Bank of Kenya. This, coupled with the emerging business conditions due to covid-19 impact as disclosed in note 43, negatively impacts the ability of the Bank to perform profitably and maintain adequate solvency ratios. The following are important mitigation measures undertaken by the directors;

i) The Bank received a legally binding offer, dated 2nd June 2020, from The Co-operative Bank of Kenya Limited (Co-operative Bank) for the investment of Sh 1,000,000,000 into the bank as a subscription for new class of 224,153,541 ordinary shares at Sh 4.46 per share. These new shares were created and designated to rank pari-passu with the existing ordinary shares and gives Co-operative Bank an equivalent of 90% controlling stake in the bank. The offer was approved by the board of Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) and subsequently by shareholders at an extraordinary general meeting on 1 July 2020. The business transaction was concluded on 18 September 2020.

   Pursuant to completion of the transaction, the control of the running of the bank is now under the direction and supervision of The Co-operative Bank of Kenya Limited as the parent company who have injected significant additional funding to restore the Bank's liquidity and solvency position.

ii) Following the investment transaction above, the Bank has successfully negotiated with some of its major lenders, ResponsAbility and Progression Africa, on restructuring of the borrowings which have been disclosed in note 30. These debts were already due for settlement and qualify for a recall by the lenders. The debts will be repaid by December 2022 and November 2022 respectively under the revised terms. Included in the deposits and balances due to banking institutions is an amount of Sh 2.2 billion (2019: 2.0 billion) due to the Central Bank of Kenya.

   There has been no adverse action or acceleration by the lenders in respect of any breach or event of default that may have occurred as per the contractual agreement.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3(b) GOING CONCERN (Continued)

iii) The Bank has also put in place aggressive strategy for recovery of non-performing loans and advances (NPL). These include selling parts of its non-performing loan book and long-term mortgages. The recovery team has put into place strategies for each specific account in NPL to improve on recoveries.

iv) The Directors have continued with aggressive deposit mobilisation which continues to be a core "business as usual" for all branches and head office teams.

The Directors believe that the plans above and, in particular, the successful on boarding of the new investor, have been successful in improving the Group and the Bank's solvency and liquidity positions and have therefore prepared the consolidated and bank financial statements on a going concern basis. In the directors opinion, there are no material uncertainties that exist which may cast significant doubt on the group's and bank's ability to continue as going concern.

4 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments - credit risk; liquidity risk; market risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Assets and Liabilities (ALCO) and a Credit Committee which are responsible for developing and monitoring the Bank's risk management policies.

The 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. The Bank, through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors is responsible for monitoring compliance with the Group'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 and its subsidiaries.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group 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. The Group's Credit Department reports to Management Credit Committee, which in turn reports to Board Credit Committee, which is responsible for oversight of the Group'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 Credit Manager and the Managing Director. Larger facilities require approval by the Board Credit Committee or the Main Board as appropriate.

- Reviewing and assessing credit risk. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of 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 Board Credit Committee.

- 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 local portfolios and appropriate corrective action is taken.

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

Introduction and overview (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

Management of credit risk

Concentrations of assets, liabilities and off balance sheet items

Details of significant concentrations of the Group's assets, liabilities and off balance sheet items by industry groups are as detailed below:

(i) Loans and advances - net

	2020 Sh '000	%	2019 Sh '000	%
Agriculture	7,072	0.14%	10,152	0.18%
Building and construction	207,768	4.04%	444,817	7.79%
Wholesale and retail	2,477,346	48.21%	2,283,589	40.00%
Real estate	829,735	16.15%	777,891	13.62%
Social community and personal services	1,564,236	30.44%	2,146,737	37.60%
Transport and communication	52,104	1.02%	46,377	0.81%
	5,138,261	100%	5,709,563	100%

(ii) Customer deposits

	2020 Sh '000	%	2019 Sh '000	%
Private Enterprises	1,280,254	27%	1,308,466	28%
Non-profit institutions and individuals	3,693,735	73%	3,404,276	72%
	4,973,989	100%	4,712,742	100%

(iii) Off balance sheet items – (letters of credit and guarantees)

	2020 Sh '000	%	2019 Sh '000	%
Building and construction	270,269	29%	238,248	34%
Transport and communication	111,835	12%	98,102	14%
Others	549,857	59%	364,380	52%
	931,961	100%	700,730	100%

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Maximum exposure to credit risk before collateral held

	2020 Sh' 000	%	2019 Sh' 000	%
On-balance sheet				
Cash and bank balances with Central Bank of Kenya	545,670	1.90%	99,724	1.39%
Government and other securities				
- At amortised cost	299,323	1.04%	304,867	4.25%
- At FVTOCI	21,592,587	75.37%	202,144	2.82%
Placements with other banks	142,596	0.50%	165,355	2.30%
Loans and advances to customers	5,138,261	17.93%	5,709,563	79.54%
	27,718,437	96.75%	6,481,653	90.29%
Off-balance sheet items:				
Guarantees and indemnities	929,871	3.25%	696,744	9.71%
	28,648,308	100%	7,178,397	100%

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

As shown above, 17.93% of the total maximum exposure is derived from loans and advances to customers (2019: 79.54%) and 76.41% represents investments in debt securities (2019: 7.07%)

Loans and advances to customers are secured by collateral in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The Bank does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and balances with Central Bank of Kenya.
- Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the Group has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks and financial institutions with high credit ratings.

The board assesses the credit quality of each related party, taking into account its financial position, past experience and other factors before getting into any credit transactions with them. The credit risk on related parties is minimal as their ultimate holding company is also one of main shareholders of the Bank who have huge financial capacities as demonstrated by the regular capital injection over the years.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

The following table sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost 31 December 2020. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For loan commitments the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities. Explanation of the terms ‘Stage 1’, ‘Stage 2’, ‘Stage 3’ and purchased originated credit impaired (POCI) assets is included in Note 2

			2020			2019
Sh’000	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Total**
Cash and balances with Central Bank of Kenya;						
Performing	545,779	-	-	-	545,779	99,744
	545,779	-	-	-	545,779	99,744
ECL (note 17)	(109)	-	-	-	(109)	(20)
Carrying amount	545,670	-	-	-	545,670	99,724

In arriving at the ECL allowance for cash and balances with Central bank of Kenya, the Bank and group has adopted S&P and GRC rankings. The S&P ranking has assigned a risk/default rate of 0.00% for financial institutions rated AAA, 0.02% for AA rated, 0.07% A rated, 0.29% for BBB rated, 0.76% for BB rated, 2.93% for B rated and 15.79% for CCC/C rated financial institutions (Source 2020 Annual Global Corporate Default Study, Standard & Poor).

GCR has carried out a credit rating of Kenyan banks but has not assigned risk/default rates for the various ratings given. On the other hand, S&P has not done a rating specific to Kenyan financial institutions but has risk rates assigned to various ratings as documented above whose description we have reviewed and came up with the risk rates applicable to Kenyan banks.

A GCR rating of AA with a risk weight of 0.02% has been assumed for cash and balances with Central Bank of Kenya given the very high credit quality ranking of the Central Bank of Kenya (CBK) and its associated inherently strong protection factors. Adverse changes in business, economic or financial conditions would increase the default risk although not significantly.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	Stage 1	Stage 2	2020 Stage 3	POCI	Total	2019 Total
Government securities;						
Performing	21,896,368	-	-	-	21,896,368	507,112
	21,896,368	-	-	-	21,896,368	507,112
ECL (note 17)	(4,458)	-	-	-	(4,458)	(101)
Carrying amount	21,891,910	-	-	-	21,891,910	507,011

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk. A GCR rating of AA with a risk weight of 0.02% has been assumed in arriving at the ECL given the very high credit quality ranking of the Central Bank of Kenya (CBK) and its associated inherently strong protection factors. Adverse changes in business, economic or financial conditions would increase the default risk although not significantly.

Sh'000	Stage 1	Stage 2	2020 Stage 3	POCI	Total	2019 Total
Deposits and balances due from banking institutions;						
Performing	145,469	-	-	-	145,469	166,621
	145,469				145,469	166,621
ECL (note 17)	(2,873)	-	-	-	(2,873)	(1,266)
Carrying amount	142,596	-	-	-	142,596	165,355

In the GCR rating, Kenyan financial institutions are described as consistently having a stable outlook which is equated to the S&P description of financial institutions rated BB. Hence a default rate of 0.76% has been considered for deposits and balances due from banking institutions in arriving at the ECL allowance.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	Stage 1	Stage 2	2020 Stage 3	POCI	Total	2019 Total
Off-balance sheet items;						
Guarantees and indemnities Performing	931,961	-	-	-	931,961	700,730
	931,961	-	-	-	931,961	700,730
ECL (note 17)	(2,090)	-	-	-	(2,090)	(3,986)
Carrying amount	929,871	-	-	-	929,871	696,744

From history, the Bank has not incurred any loss from off balance sheet items hence they have been assessed as having a low credit risk. In arriving at the ECL allowance we have considered history and the likelihood of the commitments being called up.

Classification of loans and advances

Sh'000	Stage 1	Stage 2	2020 Stage 3	POCI	Total	2019 Total
Loans and advances to customers;						
Performing	1,912,645	-	-	-	1,912,645	2,601,981
Under performing	-	207,532	-	-	207,532	468,488
Non-performing	-	-	6,786,738	-	6,786,738	6,082,597
	1,912,645	207,532	6,786,738	-	8,906,915	9,153,066
ECL allowance	(11,817)	(10,744)	(3,746,093)	-	(3,768,654)	(3,443,503)
Carrying amount	1,900,828	196,788	3,040,645	-	5,138,261	5,709,563

Loans and advances-performing

The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a provision at 1% is made and appropriated from revenue reserves to statutory reserves.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Loans and advances-under-performing

These are loans and advances where contractual interest or principal payments are past due by less than 90 days but the Bank believes that impairment is not appropriate based on the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a collective impairment allowance of 3% made to cover losses, which have been incurred but have not yet been identified.

Classification of loans and advances

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

	2020				**2019**
Loans and advances to customers;	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Current	1,912,645	-	-	1,912,645	2,204,646
Overdue < 30 days	-	207,532	-	207,532	397,338
Overdue > 30 days	-	-	6,786,738	6,786,738	6,551,082
Total	1,912,645	207,532	6,786,738	8,906,915	9,153,066

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

The Group and Bank identifies a significant increase in credit risk where;

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

    a. credit risk quality at the date of reporting; with
    b. the credit risk quality on initial recognition of the exposure.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Determining whether credit risk has increased significantly

The Group and Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group and Bank's internal credit risk management process.

The Group and Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears. Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group and Bank may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- ✓ Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- ✓ Unavailable/inadequate financial information/financial statements;
- ✓ Qualified report by external auditors;
- ✓ Significant contingent liabilities;
- ✓ Loss of key staff in the organization;
- ✓ Increase in operational risk and higher occurrence of fraudulent activities;
- ✓ Continued delay and non-cooperation by the borrower in providing key relevant documentation;
- ✓ Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group and the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

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 ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

Stage 3 - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Credit risk grades

The Group and Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The credit risk grades within the Bank are based on a probability of default. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to the nature and type of loans.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

The Bank grades its loans into five categories on the basis of the following criteria:

Performing loans, being loans which are well documented and performing according to contractual terms. Such loans are considered under stage 1 - no significant increase in credit risk for purposes of the ECL calculation;

Watch loans, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding for less than 30 days. Such loans are also classified as stage 1 for purposes of the ECL calculation;

Substandard loan, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding. Under this category, loans past due between 31 - 90 days (or 2-3 pending instalments) are classified within in stage 2 – significant increase in credit risk for purposes of the ECL calculation. Loans aged beyond 90 days are classified as stage 3 - credit impaired;

Doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty-one to three hundred and sixty days or where seven to twelve instalments have remained outstanding. Such loans are classified as stage 3 for purposes of the ECL calculation; and

Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding. Such loans are also classified as stage 3 for purposes if the ECL calculation.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Definition of default

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

- ✓ the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Group and the Bank to actions such as realising security (if any is held); or
- ✓ the borrower is more than 90 days past due on any material credit obligation to the Group and the Bank. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

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

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

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

Incorporation of forward-looking information

Under IFRS 9, the Group and Bank will incorporate forward-looking information in its measurement of ECLs.

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

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

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

The key drivers for credit risk are GDP in as much as it affects customers ability to pay their outstanding loan commitments, growth in commercial bank loans, exports of goods and services and inflation.

Modified financial assets

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

Modified financial assets

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

The Group and Bank renegotiates loans and advances with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Group and Bank's restructuring policy, loans and advances restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank Credit Committee regularly reviews reports on restructuring activities. Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

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

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

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

PD

Loan listings payment history and the borrower prudential guideline risk classifications from 2015 to date were used as the primary input in the determination of the PD structures.

PD estimates for loans and advances are estimates at a certain date, calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will are assessed at individual borrower level.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

PD (Continued)

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

Loss Given Default (LGD)

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

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

Exposure at Default

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

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

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

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

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Amount arising from ECL

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by Segment.

Loans and advances to customers	**Stage 1 12-month ECL Sh '000**	**Stage 2 Lifetime ECL Sh '000**	**Stage 3 Lifetime ECL Sh '000**	**Total Sh '000**
Loss allowance as at 1 January 2020	103,713	30,854	3,308,936	3,443,503
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	(5,558)	-	(5,558)
– Transfer to stage 3	-	-	442,703	442,703
New financial assets originated or purchased (POCI)	5,526	6,332	131,340	143,198
Financial assets that have been derecognized	(35,946)	(20,235)	(82,829)	(139,010)
Repayments effect and interest capitalization	(61,476)	(649)	(54,057)	(116,182)
Loss allowance as at 31 December 2020	11,817	10,744	3,746,093	3,768,654

Loans and advances individually impaired

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

Loans and advances individually impaired.

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

	Loans		Overdrafts	
	2020 Sh'000	2019 Sh'000	2020 Sh'000	2019 Sh'000
Individually assessed impaired loans and Advances - retail	3,113,795	2,811,455	317,814	307,533
- corporate	2,556,867	2,308,603	798,262	772,438
	5,670,662	5,120,058	1,116,076	1,079,971
Discounted value of securities	13,389,640	786,551	2,461,869	-

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Loans and advances individually impaired (Continued)

	Loans and advances to customers	
	Gross	**Net**
31 December 2020	Sh'000	Sh'000
Grade 5: Individually impaired	-	-
Grade 3 & 4: Individually impaired	6,994,270	3,687,274
	6,994,270	3,687,274
31 December 2019		
Grade 5: Individually impaired	-	-
Grade 3 & 4: Individually impaired	6,551,084	2,411,385
	6,551,084	2,411,385

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

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

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Collateral held

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

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Collateral held (Continued)

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

	2020	2019
Discounted value of securities held	Sh'000	Sh'000
For loans classified as:		
Neither past due nor impaired	5,156,100	19,163,634
Past due but not impaired	610,633	8,979,276
Impaired	10,084,776	21,862,236
	15,851,509	50,005,146
Analysis of nature of collateral held:		
Past due but not impaired		
Property	534,799	1,062,914
Motor vehicle	15,161	20,242
Other	566,759	175,808
	1,116,719	1,258,964
Analysis of nature of collateral held:		
Impaired		
Property	7,387,714	8,892,544
Motor vehicle	192,787	784,491
Other	2,504,276	194,196
	10,084,777	9,871,231

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT

Covid – 19 impact assessment of the overall performance of the bank's portfolio for the financial period ended 31 December 2020 is as per the table below

JUDGEMENT	**Retail & Corporate**
Determination of whether the credit risk of financial instruments have increased significantly since initial recognition	Although COVID-19 has had a negative impact on the economy in which the Bank operates, in isolation COVID-19 initially reflected an increase in erosion of liquidity for the bank rather than the inherent increase in credit risk for the entire portfolio of advances held. This was largely due to the unique nature of the bank's portfolio with the bulk of the book either matured or in NPL this meant that no blanket downgrade on all ECL stages was imposed. A more systematic and targeted approach to the impact of COVID-19 on the Bank's customer base was thus undertaken, following the bank's existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends as well. As such, the bank did not view requests for payment deferrals and liquidity assistance as the sole indicator that SICR had occurred for the performing advances. IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This presupposes that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. The bank however, holds the opinion that where through mutual agreement with the customer, the bank agrees to a deferral of payment(s) for a period of time, such deferral does not necessarily translate into a trigger effect for counting of days past due.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT(Continued)

<table>
<tr><td>SICR assessment of COVID 19 relief exposures</td><td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.

SICR triggers are based on client behaviour, client-based behaviour scores and judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.

These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products.</td></tr>
<tr><td>Sensitivity Staging</td><td>As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.

The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the total ECL provisions that the group would carry in its books if all facilities with greater than 90 days past due and all restructures were restaged.

<table>
<tr><th colspan="3">DEC-2020</th></tr>
<tr><th></th><th>Base</th><th>Restaged</th></tr>
<tr><td>Stage 1</td><td>11,817</td><td>10,635</td></tr>
<tr><td>Stage 2</td><td>10,745</td><td>11,819</td></tr>
<tr><td>Stage 3</td><td>3,746,092</td><td>3,746,092</td></tr>
<tr><td>Total</td><td>3,768,654</td><td>3,768,546</td></tr>
</table>
Comparative information has not been provided. As IFRS 9 is refined and embedded in the bank’s reporting process, additional disclosure is included. This information was not produced in the prior year.The above table sets out the total ECL provisions if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the advance was moved from stage 2 to stage 3 as at 31 December 2020.

The impairment recognised as of 31 December 2020 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note.</td></tr>
</table>

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT(Continued)

Treatment of financial relief offered in response to the impacts of COVID-19	The bank offered financial relief through various mechanisms in response to COVID- 19. These included the following: • restructure of existing exposures with no change in the present value of the estimated future cash flows; and • restructure of existing exposures with a change in the present value of the estimated future cash flows. Prior to COVID-19 relief being granted, the customer was assessed against eligibility for relief criteria. In doing so, the bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 31 March 2020, any restructuring of the customer's facilities was deemed to be permanent in nature. Where relief is expected to be temporary in nature and as such qualifies as a non-distressed restructure, the staging of the exposure as at 31 March 2020 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with the group's normal practice. The ECL for all exposures on which relief has been offered are accordingly adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the bank's portfolio.
Determination of whether a financial asset is credit impaired	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to repay their credit obligations in full without any recourse action by the bank, such as the realisation of security. Distressed restructures of accounts in stage 2 are also considered to be default events. For a loan account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant remediation committee. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Bank monitors liquidity ratios on a daily basis.

Liquidity risk based on undiscounted cash flows

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

	2020	2019
At 31 December	362.2%	-23%
Average for the period	128.2%	-18.7%
Maximum for the period	367.8%	-12.0%
Minimum for the period	-37.3%	-23.0%
Statutory minimum requirement	+20%	+20%
	=====	=====

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (continued)

The tables below represent cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities as at 31 December 2020 and 31 December 2019. The amounts disclosed in the table are the contractual discounted cash flows. All figures are in thousands of Kenya Shillings.

At 31 December 2020	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 years	Total Sh'000
Customer deposits	1,669,313	2,700,974	228,112	366,355	9,235	-	-	4,973,989
Deposits and balances due to banking institutions	2,156,981	-	-	-	-	-	-	2,156,981
Medium term loan	-	-	-	847,716	-	-	-	847,716
Long term loan	-	-	-	-	-	-	20,758,487	20,758,487
Due to related parties	-	-	-	-	-	134	-	134
Total financial liabilities (contractual maturity dates)	3,826,294	2,700,974	228,112	1,214,071	9,235	134	20,758,487	28,737,307
Financial assets								
Cash and bank balances with Central Bank of Kenya	545,670	-	-	-	-	-	-	545,670
Government securities	-	-	-	-	2,042,822	94,620	19,754,468	21,891,910
Deposits and balances due from banking institutions	42,435	100,161	-	-	-	-	-	142,596
Loans and advances to customers	456,711	343,815	345,209	337,101	838,982	1,452,082	1,364,361	5,138,261
Total financial assets (expected maturity dates)	1,044,816	443,976	345,209	337,101	2,881,804	1,546,702	21,118,829	27,718,437
Net liquidity (surplus)/gap *	2,781,478	2,256,998	(117,097)	876,970	(2,872,569)	(1,546,568)	(360,342)	1,018,870

* The mismatch in the categories under up to 1 month, 1-3 and 3-6 months is due to the assumption that all the deposits falling due within these periods will be withdrawn, which is highly unlikely.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (continued)

At 31 December 2019	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 years	Total Sh'000
Customer deposits	-	1,739,571	2,763,749	139,083	49,264	21,075	-	4,712,742
Deposits and balances due to banking institutions	-	2,002,307	-	-	-	-	-	2,002,307
Medium term loan	-	1,187,883	-	-	-	-	-	1,187,883
Due to related parties	-	-	-	-	-	123	-	123
Total financial liabilities (contractual maturity dates)	-	4,929,761	2,763,749	139,083	49,264	21,198	-	7,903,055
Financial assets								
Cash and bank balances with Central Bank of Kenya	88,607	-	-	-	-	-	11,117	99,724
Government securities	-	-	-	-	-	507,011	-	507,011
Deposits and balances due from banking institutions	-	165,355	-	-	-	-	-	165,355
Loans and advances to customers	536,153	403,620	405,256	395,738	984,918	1,382,194	1,601,684	5,709,563
Total financial assets (expected maturity dates)	624,760	568,975	405,256	395,738	984,918	1,889,205	1,612,801	6,481,653
Net liquidity (surplus)/gap *	(624,760)	4,360,786	2,358,493	(256,655)	(935,654)	(1,868,007)	(1,612,801)	1,421,402

* The mismatch in the categories under up to 1 month, 1-3 and 3-6 months is due to the assumption that all the deposits falling due within these periods will be withdrawn, which is highly unlikely.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk

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

(i) Currency risk

The Group operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Group's currency risk is managed within the Central Bank of Kenya exposure guidelines of 20% of core capital.

The exchange rates used for translating the major foreign currency balances as at year end were as follows:

	2020 Sh	2019 Sh
US Dollar	109.25	101.22
GB Pound	147.53	133.10
Euro	134.44	115.45
	=====	=====

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2020 and 31 December 2019. Included in the table are the Group's financial instruments, categorized by currency.

At 31 December 2020	Kshs Sh'000	USD Sh'000	GBP Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	538,983	5,473	144	1,070	-	545,670
Government securities	21,891,910	-	-	-	-	21,891,910
Deposits and balances due from banking institutions	-	129,329	474	12,793	-	142,596
Loans and advances to customers	5,106,516	31,695	8	42	-	5,138,261
Total financial assets	27,537,409	166,497	626	13,905	-	27,718,437
FINANCIAL LIABILITIES						
Customers deposits	4,958,533	14,715	154	587	-	4,973,989
Deposits and balances due to banking institutions	2,144,650	12,331	-	-	-	2,156,981
Medium term loan	397,147	450,569	-	-	-	847,716
Long term loan	20,758,487	-	-	-	-	20,758,487
Total financial liabilities	28,258,817	477,615	154	587	-	28,737,173
Net foreign currency exposure	(721,408)	(311,118)	472	13,318	-	(1,018,736)
	========	=======	=====	======	======	========

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2019

At 31 December 2019	Kshs Sh'000	USD Sh'000	GBP Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	86,219	13,433	16	56	-	99,724
Government securities	507,011	-	-	-	-	507,011
Deposits and balances due from banking institutions	163,127	1,411	796	21	-	165,355
Loans and advances to customers	5,510,428	199,135	-	-	-	5,709,563
Total financial assets	6,266,785	213,979	812	77	-	6,481,653
FINANCIAL LIABILITIES						
Customers deposits	4,566,334	146,408	-	-	-	4,712,742
Deposits and balances due to banking institutions	1,988,866	13,441	-	-	-	2,002,307
Medium term loan	588,189	599,694	-	-	-	1,187,883
Total financial liabilities	7,143,389	759,543	-	-	-	7,902,932
Net foreign currency exposure	(876,604)	(545,564)	812	77	-	(1,421,279)

The Group does not have off-balance sheet items represented by the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

Foreign currency risk stress test

The table below summarizes the estimated impact of a 10% decline/appreciation of the Kenya Shilling against the three major currencies traded by the Group i.e. US Dollar, British Pound and Euro.

	2020 Shs'000	2019 Shs'000
10% depreciation of the Kenya Shilling	24,429	54,645

(ii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase because of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk Continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Group does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

At 31 December 2020

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing Years	Total
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	-	-	-	-	545,670	545,670
Government securities	-	-	2,042,822	19,849,088	-	21,891,910
Deposits and balances due from banking institutions	42,435	100,161	-	-	-	142,596
Loans and advances to customers	456,711	343,815	682,310	3,655,425	-	5,138,261
Total financial assets	499,146	443,976	2,725,132	23,504,513	545,670	27,718,437
FINANCIAL LIABILITIES						
Customers deposits	1,669,313	2,700,974	594,467	9,235	-	4,973,989
Deposits and balances due to banking institutions	2,156,981	-	-	-	-	2,156,981
Medium term loan	-	-	-	847,716	-	847,716
Long term loan	-	-	-	20,758,487	-	20,758,487
Total financial liabilities	3,826,294	2,700,974	594,467	21,615,438	-	28,737,173
Net gap	(3,327,148)	(2,256,998)	2,130,665	1,889,075	545,670	(1,018,736)

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk (Continued)

At 31 December 2019

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing Years	Total
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	-	-	-	-	99,724	99,724
Government securities	-	-	-	507,011	-	507,011
Deposits and balances due from banking institutions	-	165,355	-	-	-	165,355
Loans and advances to customers	536,153	403,620	405,256	4,364,534	-	5,709,563
Total financial assets	536,153	568,975	405,256	4,871,545	99,724	6,481,653
FINANCIAL LIABILITIES						
Customers deposits	-	1,657,482	2,845,838	209,422	-	4,712,742
Deposits and balances due to banking institutions	-	2,002,307	-	-		2,002,307
Medium term loan	-	1,187,883	-	-	-	1,187,883
Total financial liabilities	-	4,847,672	2,845,838	209,422	-	7,902,932
Net gap	536,153	(4,278,697)	(2,440,582)	4,662,123	99,724	(1,421,279)

The impact that an immediate hypothetical increase or decrease in interest rates of 10% applied at the beginning of the year would have on the profit for the year assuming a growing balance sheet and current interest rate risk profile would be as follows:

	2020 Sh'000	2020 Sh'000
10% increase in interest rates	(60,172)	(112,720)
10% decrease in interest rates	60,172	112,720

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(iii) Fair values of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

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

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

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

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(i) The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2020	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Financial assets				
Government securities – FVTOC investments (note 14)	21,601,442	-	-	21,601,442
Equity investments (note 22(a))	16,087	-	-	16,087
	21,617,529	-	-	21,617,529
At 31 December 2019				
Financial assets				
Government securities – FVTOCI investments (note 14)	202,144	-	-	202,144
Equity investments (note 22(a))	16,662	-	-	16,662
Investment property (note 24)	-	788,000	-	788,000
	218,806	788,000	-	1,006,806

There were no transfers between levels 1, 2 and 3 during the year.

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(iii) Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (Continued)

Determination of fair value and fair values hierarchy (Continued)

(ii) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table below provides information about how the fair values of these financial and non-financial assets and liabilities are determined (i.e. in particular, valuation techniques and inputs used).

Assets liabilities	Fair values as at 31/12/2020 Sh'000	31/12/2019 Sh'000	Fair value hierarchy	Valuation techniques and key inputs
Government securities - at FVTOCI investments	21,601,442	202,143	Level 1	Quoted bid prices in an active manner.
Equity investments	16,087	16,662	Level 1	Quoted bid prices in an active manner.
Investment property	-	788,000	Level 2	Replacement value (insurable interest) approach

(iii) Except as indicated above, the directors consider that the fair values of financial and non-financial assets and liabilities approximates their carrying amounts.

5 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

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

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

The Central Bank of Kenya requires each bank to:

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

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CAPITAL MANAGEMENT (Continued)

The Bank had not met the minimum core capital requirement as at year-end.

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

- Tier 1 capital (core capital): which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

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

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

There have been no material changes in the Bank's management of capital during the period. The Bank had met the minimum core capital requirement of Sh 1 billion as at 31 December 2020.

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

	2020 Sh'000	2019 Sh'000
Tier 1 capital		
Share capital	1,867,947	1,643,793
Share premium	3,087,449	2,311,603
Revenue deficit	(3,770,485)	(3,569,581)
Other reserves	114,897	16,351
Less: Intangible assets- Customer relationships acquired	-	(198,433)
Less: Deferred tax asset	(297,763)	(374,522)
	1,002,045	(170,789)
Tier 2 capital		
Statutory reserve	-	-
Total regulatory capital	1,002,045	(170,789)
Risk-weighted assets		
On-balance sheet	6,999,076	8,687,201
Off-balance sheet	931,961	700,730
Total risk-weighted assets	**7,931,037**	**9,387,931**
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum – 14.5%)	(+ve) 12.63%	(-ve) 1.81%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum – 10.5%)	(+ve) 12.63%	(-ve) 1.81%

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 INTEREST INCOME

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
Loans and advances to customers	514,314	620,487	514,314	620,487
Deposits and balances due from banking institutions	39,905	22,848	39,905	22,848
Government securities – At amortised cost	1,191,339	21,806	1,191,339	21,806
Government securities – At FVTOCI	35,219	5,622	35,219	5,622
	1,780,777	670,763	1,780,777	670,763

7 INTEREST EXPENSE

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
Interest on customer deposits	387,701	444,935	387,701	444,935
Interest on borrowings	68,166	211,555	68,166	211,555
	455,867	656,490	455,867	656,490

8 (a) FEES AND COMMISSION INCOME

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
Loan related fees and commissions	16,201	25,221	16,201	25,221
Other fees and commissions	113,248	139,345	113,248	139,345
	129,449	164,566	129,449	164,566

(b) FOREIGN EXCHANGE (LOSSES)/GAINS

(Losses)/gains on foreign currency dealings arose from trading in foreign currency transactions and on the translation of foreign currency denominated assets and liabilities.

9 OTHER OPERATING (LOSS)/INCOME

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
Fair value loss on equity investments – note 22(a)	(575)	(29,243)	(575)	(29,243)
Other income/(loss)	96,357	151,719	(11,929)	2,371
Fair value loss on investment property (note 24)	-	(9,238)	-	(9,238)
	95,782	113,238	(12,504)	(36,110)

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Bank	
		2020	2019	2020	2019
		Sh'000	Sh'000	Sh'000	Sh'000
10	OPERATING EXPENSES				
	Contributions to Deposit Protection Fund	6,793	7,808	6,793	7,808
	Depreciation of property and equipment (note 19)	96,345	89,279	57,274	51,763
	Amortisation of intangible assets (note 20)	47,451	66,136	47,451	66,136
	Amortisation of customer relationships (note 23)	198,433	198,434	198,433	198,434
	Auditors' remuneration- current year	8,350	9,850	7,200	8,800
	Staff costs (note 11)	286,635	338,666	280,521	332,701
	Directors' emoluments - fees	4,402	8,534	4,402	8,534
	- other emoluments	27,611	42,855	27,611	42,855
	Travel, accommodation and entertainment	10,070	16,921	10,028	15,621
	Telephone, postage, internet	22,694	16,452	22,694	16,452
	Subscriptions	10,457	11,314	10,407	11,264
	Legal and professional fees	107,591	60,068	107,458	59,886
	Rent and rates	525	1,746	-	1,221
	Repairs and maintenance	11,636	13,245	11,581	11,857
	Licenses, permits and insurances	9,118	8,007	7,364	7,184
	General office expenses	551,267	293,652	544,035	253,477
	Advertising, marketing and publicity	10,126	17,002	10,126	17,002
	Printing and stationery	6,543	6,144	6,543	6,144
	Electricity and water	9,090	9,208	9,090	9,208
	Security	35,055	39,554	35,055	39,554
	Loss on disposal of property and equipment	-	12,085	-	7,559
		1,460,192	1,266,960	1,404,066	1,173,460
11	STAFF COSTS				
	Salaries and wages	227,016	280,761	220,902	274,796
	National Social Security Fund - defined contribution	530	449	530	449
	Pension costs – defined contribution plan	8,393	9,868	8,393	9,868
	Medical costs	21,884	18,601	21,884	18,601
	Other staff costs	28,812	28,987	28,812	28,987
		286,635	338,666	280,521	332,701
12	TAXATION				
	(a) Taxation charge/(credit)				
	Current taxation charge	16,449	15,084	-	-
	Deferred taxation charge/(credit)– (note 21)	77,129	(175,585)	76,759	(177,016)
		93,578	(160,501)	76,759	(177,016)

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 TAXATION

(b) Reconciliation of tax charge/(credit) to the expected tax based on accounting loss

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
Accounting loss before taxation	(76,326)	(1,183,909)	(124,145)	(1,240,251)
Tax at the applicable rate of 25% (2019:30%)	(19,082)	(355,173)	(31,036)	(372,075)
Tax effect of expenses not allowable for tax purposes	349,613	194,709	346,119	195,096
Tax effect of incomes not subject to tax	(236,953)	(37)	(238,324)	(37)
	93,578	(160,501)	76,759	(177,016)

(c) Corporate taxation balance

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
At beginning of the year	14,564	3,572	(109)	(109)
Charge for the year	16,449	15,084	-	-
Tax paid during the year	(368)	(4,092)	-	-
Tax payable/(receivable)	30,646	14,564	(109)	(109)
Analysed as follows:				
Corporate tax recoverable	(109)	(109)	(109)	(109)
Corporate tax payable	30,755	14,673	-	-

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2020	2019	2020	2019
	Sh'000	Sh'000	Sh'000	Sh'000
Cash on hand	206,834	79,651	206,834	79,651
Balances with Central Bank of Kenya:				
- Cash ratio requirement	215,955	251,723	215,955	251,723
- Other balances	122,990	(231,630)	122,990	(231,630)
	545,779	99,744	545,779	99,744
Less ECL allowance (note 4)	(109)	(20)	(109)	(20)
At 31 December	545,670	99,724	545,670	99,724

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. These funds are not available to finance the day-to-day operations of the Bank. As at 31 December 2020 the cash ratio requirement in Kenya was 4.25% (2019 – 5.25%) of eligible deposits.

14 GOVERNMENT SECURITIES – Group and Bank

	2020	2019	2020	2019
	Sh'000	Sh '000	Sh'000	Sh '000
(a) Treasury bonds				
At amortised cost – maturing after 5 years)	294,926	304,968	294,926	304,968
At Fair value through other comprehensive income (FVTOCI)- Note (b)	21,601,442	202,144	21,601,442	202,144
	21,896,368	507,112	21,896,368	507,112
Less ECL allowance (note 4)	(4,458)	(101)	(4,458)	(101)
	21,891,910	507,011	21,891,910	507,011

(b) Movement in treasury bonds FVTOCI is as follows:

At start of year	202,144	184,441	202,144	184,441
Additions	21,300,752	-	21,300,752	-
Fair value gain	98,546	17,703	98,546	17,703
At end of year	21,601,442	202,144	21,601,442	202,144

Treasury bonds are debt securities issued by the Government of Kenya and are classified as amortised cost and FVTOCI based on the investment's business model. The weighted average effective interest rate on treasury bonds at 31 December 2020 was 11.90% (2019 – 11.58%).

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS – Group and Bank

	2020 Sh'000	2019 Sh'000	2020 Sh'000	2019 Sh'000
Balances due from banking institutions	69,142	22,502	69,142	22,502
Deposits due from banking institutions	76,327	144,119	76,327	144,119
	145,469	166,621	145,469	166,621
Less: ECL allowance (note 4)	(2,873)	(1,266)	(2,873)	(1,266)
	142,596	165,355	142,596	165,355

The above deposits mature within 3 months after year-end. The effective interest rate on deposits due from banking institutions at 31 December 2020 was 12.25% (2019: 12.25%) and nil for balances due to banking institutions.

16 LOANS AND ADVANCES TO CUSTOMERS – Group and Bank

	2020 Sh '000	2019 Sh '000
Loans and advances to customers	8,801,890	8,993,873
Loans and advances to staff	105,025	159,193
	8,906,915	9,153,066
Less: allowance for ECL (note 4)	(3,768,654)	(3,443,503)
At 31 December	5,138,261	5,709,563

Non-performing loans and advances to customers

The aggregate amount of gross non-performing loans and advances as at 31 December 2020 was Sh 6,786,738,000 (2019 - Sh 6,082,597,000).

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 LOANS AND ADVANCES TO CUSTOMERS – Group and Bank (continued)

	2020 Sh '000	2019 Sh '000
Maturity of gross loans and advances		
Maturing:		
Within one year	1,482,836	1,318,584
One year to three years	838,982	890,008
Three years to five years	1,452,082	1,587,003
After five years	1,364,361	1,913,968
	5,138,261	5,709,563
Gross loans and advances to customers by type		
Overdrafts	662,709	736,393
Term loans	4,475,552	4,973,170
	5,138,261	5,709,563

The effective interest rate on loans and advances at 31 December 2020 was 13.67% (2019: 14.73%).

The related party transactions and balances are covered under note 36 and concentrations of gross advances to customers are covered under note 4.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 EXPECTED CREDIT LOSS (ECL) RECOGNISED IN STATEMENT OF PROFIT OR LOSS

	Group		Bank	
	2020	2019	2020	2019
	Sh'000	Sh'000	Sh'000	Sh'000
Net expected credit losses on financial instruments	(306,222)	(160,147)	(301,881)	(160,641)

The table below shows the ECL charges on the Bank's financial instruments for the year

Year ended 31 December 2020	Note	Stage 1	Stage 2	Stage 3	POCI	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Cash and balances with Central Bank of Kenya		89	-	-	-	89
Government securities		4,357	-	-	-	4,357
Deposits and balances due from banking institutions	4	1,607	-	-	-	1,607
*Loans and advances to customers		(91,896)	(20,110)	409,730	-	297,724
Off-balance sheet commitments		(1,896)	-	-	-	(1,896)
Total		(87,739)	(20,110)	409,730	-	301,881
Year ended 31 December 2019						
Cash and balances with Central Bank of Kenya		20	-	-	-	20
Government securities		101	-	-	-	101
Deposits and balances due from banking institutions	4	1,266	-	-	-	1,266
*Loans and advances to customers		43,530	(59,700)	171,431	-	155,261
Off-balance sheet commitments		3,986	-	-	-	3,986
Other assets	18	7	-	-	-	7
Total		48,910	(59,700)	171,431	-	160,641

*The credit loss allowance for loans and advances to customers has been arrived at as detailed below:

ECL allowance- through SOCI:	2020 Sh '000	2019 Sh '000
Existing facilities at 1 January 2020	106,159	83,789
New financial assets originated or purchased (POCI)	143,198	177,994
	249,357	261,783
Less; write offs:		
Recovery related	47,781	185,912
Financial assets derecognized	586	(292,434)
Net ECL allowance on loans and advances to customers	297,724	155,261

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 OTHER ASSETS

	Group		Bank	
	2020	2019	2020	2019
	Sh '000	Sh '000	Sh '000	Sh '000
Other receivables	1,133,395	375,924	942,049	251,407
Prepayments and deposits	144,568	157,335	144,568	157,336
Legal deposits	-	26,960	-	26,960
	1,277,963	560,219	1,086,647	435,703
ECL allowance	(15,163)	(12,600)	-	(7)
	1,262,800	547,619	1,086,647	435,696

19 PROPERTY AND EQUIPMENT – Group

	Land & buildings	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
COST						
At 1 January 2019	-	220,947	515,148	19,446	14,930	770,471
Additions	-	3,899	103,494	24,896	26,791	159,080
Disposal	-	-	(353)	(19,444)	(9,407)	(29,204)
At 31 December 2019	-	224,846	618,289	24,898	32,314	900,347
At 1 January 2020	-	224,846	618,289	24,898	32,314	900,347
Additions	-	2,363	23,504	-	1,262	27,129
Reclassified from investment property (note 24)	788,000	-	-	-	-	788,000
At 31 December 2020	788,000	227,209	641,793	24,898	33,576	1,715,476

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KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY AND EQUIPMENT – Group (Continued)

	Land & buildings	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION						
At 1 January 2019	-	51,290	182,377	8,294	-	241,961
Charge for the year	-	24,140	61,205	3,934	-	89,279
Eliminated on disposal		-	(71)	(9,825)	-	(9,896)
At 31 December 2019	-	75,430	243,511	2,403	-	321,344
At 1 January 2020	-	75,430	243,511	2,403	-	321,344
Charge for the year	-	25,180	65,782	5,383	-	96,345
At 31 December 2020	-	100,610	309,293	7,786	-	417,689
NET BOOK VALUE						
At 31 December 2020	788,000	126,599	332,500	17,112	33,576	1,297,787
At 31 December 2019	-	149,416	374,778	22,495	32,314	579,003

19 PROPERTY AND EQUIPMENT – Bank

	Land & buildings	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
COST						
At 1 January 2019	-	220,947	276,613	4,159	14,930	516,649
Additions	-	3,899	12,714	8,096	26,791	51,500
Disposal	-	-	-	(4,158)	(9,407)	(13,565)
At 31 December 2019	-	224,846	289,327	8,097	32,314	554,584
Comprising:						
Cost	-	224,846	289,327	8,097	32,314	554,584
At 1 January 2020	-	224,846	289,327	8,097	32,314	554,584
Additions		2,363	3,852	-	1,262	7,477
Transfer from investment property (note 24)	788,000	-	-	-	-	788,000
Disposal	-	-	-	-	-	-
At 31 December 2020	788,000	227,209	293,179	8,097	33,576	1,350,061

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY AND EQUIPMENT – Bank (Continued)

	Land & building	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION						
At 1 January 2019	-	51,290	143,865	4,159	-	199,314
Charge for the year	-	24,140	26,780	843	-	51,763
Eliminated on disposal	-	-	-	(4,158)	-	(4,158)
At 31 December 2019	-	75,430	170,645	844	-	246,919
At 1 January 2020	-	75,430	170,645	844	-	246,919
Charge for the year	-	25,180	30,070	2,024	-	57,274
At 31 December 2020	-	100,610	200,715	2,868	-	304,193
NET BOOK VALUE						
At 31 December 2020	788,000	126,599	92,464	5,299	33,576	1,045,868
At 31 December 2019	-	149,416	118,682	7,253	32,314	307,665

The work in progress relates to ongoing digital banking platform development and branch relocation costs to be capitalised.

Land & buildings relates to the building situated on LR no. 1/859 along Arwings Kodhek road in Kilimani, Nairobi previously classified under investment property. The property was reclassified from investment property during the current year following change in the business objective of holding the asset. The property was classified at its carrying value as at 31 December 2020.

The land and buildings was last revalued as at 31 December 2020 by Morgan Wright Limited, independent valuers on the basis of open market value for existing use for purposes of establishing the transfer cost from investment property.

Morgan Wright Limited are members of the Institute of Surveyors of Kenya and have appropriate qualifications and relevant and recent experience in fair value measurement of properties in the various locations in Kenya. Valuations were made on the basis of open market value for existing use and by reference to market evidence of recent transactions for similar properties.

The title of the property is freehold and is registered in the name of the Bank as absolute proprietors.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 INTANGIBLE ASSETS – Group and Bank

	Sh '000
COST	
At 1 January 2019	408,776
At 31 December 2019	408,776
At 1 January 2020	408,776
At 31 December 2020	408,776
AMORTISATION	
At 1 January 2019	254,330
Charge for the year	66,136
At 31 December 2019	320,466
At 1 January 2020	320,466
Charge for the year	47,451
At 31 December 2020	367,917
NET BOOK VALUE	
At 31 December 2020	40,859
At 31 December 2019	88,310

The intangible assets relate to computer software.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 DEFERRED TAX ASSET

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
The net deferred tax asset is attributable to the following items:				
Accelerated capital allowances	98,577	107,667	87,118	97,946
Unrealized exchange losses	(163)	-	-	-
General provisions	87,532	(30,388)	90,564	(28,262)
Other provisions and temporary differences	(56,697)	(5,298)	(56,697)	(5,298)
Tax losses	(422,041)	(441,900)	(422,041)	(442,201)
Revaluation surplus	3,293	3,293	3,293	3,293
Deferred tax asset-net	(289,497)	(366,626)	(297,763)	(374,522)
Movement in deferred tax asset is as follows:				
At 1 January	(366,626)	(191,041)	(374,522)	(197,506)
Charge/(credit) to profit or loss (note 12(a))	77,129	(175,585)	76,759	(177,016)
At 31 December	(289,497)	(366,626)	(297,763)	(374,522)

As at 31 December 2020, the Bank had accumulated tax losses amounting to Sh 1.473 billion Sh 1.407 billion (2019 – Sh 2,568,014,000) and available to be offset against future taxable profit.

22 EQUITY INVESTMENTS - Group and Bank

	2020 Sh'000	2019 Sh'000
(a) Investment in quoted company – At fair value through profit and loss (FVTPL)	16,087	16,662
Uchumi Supermarkets Limited		
At 1 January	16,662	45,905
Fair value loss (note 9)	(575)	(29,243)
At 31 December	16,087	16,662

The investment in Uchumi Supermarkets Limited is held at fair value through profit or loss. The share price closed at Sh 0.28 as at 31 December 2020 (2019: Sh 0.29) and a revaluation loss of Sh 575,000 (2019: Sh 29,243,000) was recognized in the financial statements under other income in note 9

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 EQUITY INVESTMENTS- At fair value through profit or loss – Group and Bank (Continued)

(b) **Investment in subsidiaries at cost**

	No. of shares	% Holding	2020 Sh'000	2019 Sh'000
Jamii Bora Insurance Agency Limited	100	100%	139	139
Jamii Bora Leasing Limited	1,000	100%	1,000	1,000
			1,139	1,139

The subsidiaries are wholly owned Limited Liability Companies incorporated and domiciled in Kenya.

Jamii Bora Insurance Agency Limited was incorporated in 30 May 2015.The principal activity of the Bank is insurance agency business.

Jamii Bora Leasing Limited was incorporated in 30 September 2019. The principal activity of the Bank is leasing business.

	2020 Sh '000	2019 Sh '000
23 INTANGIBLE ASSETS - CUSTOMER RELATIONSHIPS – Group and Bank		
Customer relationships	198,433	396,867
Amortisation of intangible asset	(198,433)	(198,434)
Net carrying value	-	198,433

This relates to the value of microfinance customers acquired on business combination when the operations of the Bank were merged with those of Jamii Bora Kenya Limited with effect from 28 February 2010.

The transaction was completed through a share price agreement which resulted in the transfer of all Jamii Bora Kenya Limited business, assets and liabilities to the Bank. The consideration transferred was new shares offered to the shareholders of Jamii Bora Kenya Limited.

In 2020, the Bank analysed and reassessed the customer relationships in accordance with International Accounting Standard No. 38 (Intangible Assets) on review of useful lives of intangible assets and determined that the customer relationships were deemed to be fully amortised. The intangible assets were therefore fully amortised during the period as per the Bank's accounting policy.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2020	2019	2020	2019
	Sh '000	Sh '000	Sh '000	Sh '000
24 INVESTMENT PROPERTY - Group and Bank				
At 1 January	788,000	579,258	788,000	579,258
Addition	-	217,980	-	217,980
Fair value loss	-	(9,238)	-	(9,238)
Reclassified to property and equipment (note 19)	(788,000)	-	(788,000)	-
At 31 December	-	788,000	-	788,000

Investment property relates to the headquarter building situated at LR no. 1/859 along Arwings Kodhek road in Kilimani, Nairobi. The building was previously set to be sold or leased as sectional property. However, the directors have, with effect from 2020, changed the purpose of the property to owner occupier and therefore reclassified it to property and equipment as disclosed in note 19.

The property was last revalued as at 31 December 2019 by Morgan Wright Limited, independent valuers on the basis of open market value for existing use for purposes of establishing the transfer cost from investment property. Morgan Wright Limited are members of the Institute of Surveyors of Kenya and have appropriate qualifications and relevant and recent experience in fair value measurement of properties in the various locations in Kenya. Valuations were made on the basis of open market value for existing use and by reference to market evidence of recent transactions for similar properties.

25 INVESTMENT PROPERTY- FAIR VLAUE HIERACHY

Details of the Group's investment property and information about fair value hierarchy as at 31 December 2020 is as follows:

	Level 1	Level 2	Level 3	Fair value Sh'000
Investment property-Land LR no. 1/859 (located in Kilimani, Nairobi)				
31 December 2020	-	-	-	-
31 December 2019	-	788,000	-	788,000

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 RIGHT-OF-USE ASSETS – Group & Bank

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

	2020 Building Sh'000	2019 Building Sh'000
COST		
At 1 January as previously reported	213,816	-
Adjustment on adoption of IFRS 16	-	213,816
At 1 January-as restated	213,816	213,816
Additions	4,137	-
Terminations	(77,198)	-
At 31 December	140,755	213,816
DEPRECIATION		
At 1 January	33,676	-
Charge for the year	24,599	33,676
At 31 December	58,275	33,676
NET BOOK VALUE		
At 31 December	82,480	180,140

Amounts recognized in profit or loss:

	2020	2019
Depreciation expense on right-of-use assets	24,599	33,676
Interest expense on lease liabilities	6,866	16,181
Expense relating to short term leases	741	-
	32,206	49,857

All of the property and equipment leases in which the Group is the lessee contain only fixed payments.

The total cash outflow for leases amount to Sh 29 million (2019: Sh 39 million).There were no restrictions or covenants imposed by lessors

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2020	2019	2020	2019
	Sh '000	Sh '000	Sh '000	Sh '000
27 CUSTOMER DEPOSITS - Group and Bank				
Current and demand accounts	1,877,284	2,149,709	1,984,584	2,231,690
Savings accounts	339,417	310,440	339,417	310,440
Fixed deposit accounts	2,757,288	2,252,593	2,757,288	2,252,593
	4,973,989	4,712,742	5,081,289	4,794,723
Maturity analysis of customer deposits				
Repayable:				
On demand	1,562,013	2,238,310	1,669,313	2,233,366
Within 90 days	3,411,976	2,474,432	3,411,976	2,561,357
	4,973,989	4,712,742	5,081,289	4,794,723

The effective interest rate on interest bearing customer deposits at 31 December 2020 was 10% (2019 - 12%). The related party transactions and balances are covered under note 34 and concentrations of customer deposits is covered under note 4 (a).

	2020	2019
	Sh '000	Sh '000
28 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
Group and Bank		
Balances due to banking institutions	2,156,981	2,002,307

The above balances are denominated in local currency and mature within 3 months after year-end. The effective interest rate on balances due to banking institutions at 31 December 2020 was 11.25 % (2019: 11%).

	2020	2019
	Sh '000	Sh '000
29 MEDIUM TERM LOANS – Group and Bank		
ResponsAbility*	155,995	228,666
Shelter Afrique**	3,247	49,844
Housing Finance Group***	218,020	240,618
Progression Africa****	470,454	668,755
Africa Guarantee Fund for SME Ltd*****		
At 31 December	847,716	1,187,883

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 MEDIUM TERM LOANS – Group and Bank (Continued)

	2020 Sh '000	2019 Sh '000
The movement in borrowings is as follows:		
At 1 January	1,187,883	1,368,224
Loan repaid- Africa Guarantee Fund for SME Ltd	-	(114,808)
Loan repaid- Housing Finance Group	(49,465)	(59,921)
Loan repaid- Shelter Afrique	(54,407)	(72,503)
Loan repaid – responsibility	(95,010)	(2,310)
Loan repaid- Progression Africa	(267,274)	(85,904)
	(466,156)	(335,446)
	721,727	1,032,776
Accrued interest	125,989	155,105
At 31 December	847,716	1,187,883
On demand or within one year	629,696	1,187,883
Between 2 to 3 years	-	-
Over 3years	218,020	-

* The ResponsAbility loan is denominated in United States American Dollars (USD). Its effective interest rate is 5.5% per annum. The loan matured during the year and was restructure for one (1) years after successful negotiations.

** The Shelter Afrique loan is denominated in Kenya Shillings. Its effective interest rate is 13% per annum. The loan is guaranteed by 130% assignment of related mortgage book. The loan is payable in 1 year.

*** The Housing Finance Group loan is denominated in Kenya Shillings. Its effective interest rate is 14% per annum. The loan is payable after 6 years.

**** The Progression Africa loan is denominated in Kenya Shillings and United States American Dollars (USD) on fifty percent basis. Its effective interest rate is 9.5% and 3.5% per annum for the Kenya Shillings and United States American Dollars loan respectively. The loan is payable within one (1) years after successful .negotiations on restructure upon maturity

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 LONG TERM LOAN – Group and Bank

	2020 Sh '000	2019 Sh '000
At 1 January	-	-
Fair value on initial recognition	7,089,091	-
Deferred benefit	13,870,909	-
Gross amount received	20,960,000	-
Interest expense	260,851	-
Amortisation of deferred benefit	(462,364)	-
	(201,513)	-
At 31 December	20,758,487	-

During the year Kingdom Bank Limited (KBL)-"the Bank" received liquidity support financing from the Central Bank of Kenya (CBK) of Sh 20,960,000,000 in exercise of its statutory mandate as regulator towards strengthening the liquidity position in a bid to turnaround the institution and stabilize the banking sector.

The facility has an effective interest rate of zero. It is repayable in seven (7) years from commencement of repayment, which is expected within 36 months from the date of lending. Management has assumed an effective interest rate of 10.89% in arriving at the fair value and deferred benefit.

31 OTHER LIABILITIES

	Group		Bank	
	2020 Sh'000	2019 Sh'000	2020 Sh'000	2019 Sh'000
Bankers cheque liability	2,865	28,244	2,865	28,243
Sundry payables	449,401	640,737	374,812	563,723
	452,266	668,981	377,677	591,966

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 LEASE LIABILITIES

	Group & Bank 2020 Sh'000	Group & Bank 2019 Sh'000
The movement in the lease liabilities is as follows:		
Balance at 1 January as previously reported	190,628	-
Adjustment on adoption of IFRS 16	-	213,816
At 1 January-as restated	190,628	213,816
Payment of lease liabilities	(29,379)	(39,369)
Interest on lease liabilities	6,866	16,181
Additions	4,137	-
Terminations	(82,384)	-
At 31 December	89,868	190,628
Amounts due for settlement within 12 months	42,653	42,653
Amounts due for settlement after 12 months	47,215	147,975
	89,868	190,628

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's treasury function. All lease obligations are denominated in Kenya Shillings.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2020 Sh '000	2019 Sh'000
33	SHARE CAPITAL – Group and Bank		
	Authorised:		
	224,153,541 Class A ordinary shares of Sh 1 each	224,154	-
	46,200,000 Class B ordinary shares of Sh 66 each	3,049,200	3,049,200
		3,273,354	3,049,200
	Issued and fully paid:		
	224,153,541 (2019:Nil) Class A ordinary shares of Sh 1 each	224,154	-
	24,905,949 (2019: 24,905,949) Class B ordinary shares of Sh 66 each	1,643,793	1,643,793
		1,867,947	1,643,793

On 2 June 2020, Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) received a legally binding offer, from The Co-operative Bank of Kenya Limited (Co-operative Bank) for the investment of Sh 1,000,000,000 into the bank as a subscription for a new class of 224,153,541 ordinary shares at Sh 4.46 per share (Sh 1.00 Par)

These new shares were created and designated to rank pari-passu with the existing ordinary shares and gave Co-operative Bank an equivalent of 90% controlling stake in the bank. The offer was approved by the board of Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) and subsequently by shareholders at an extraordinary general meeting on 1 July 2020. The business transaction was concluded on 18 September 2020 with the injection of Sh 1,000,000,000 as the subscription price.

	No. of shares	**Share capital Sh'000**	**Share premium Sh'000**
At 1 January 2020	24,905,949	1,643,793	2,311,603
Issue of Class A ordinary shares	224,153,541	224,154	775,846
Balance at 31 December 2020	249,059,490	1,867,947	3,087,449
Balance at 31 December 2019	24,905,949	1,643,793	2,311,603

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS - Group and Band

	Group 2020 Sh'000	Group 2019 Sh'000	Bank 2020 Sh'000	Bank 2019 Sh'000
(a) Reconciliation of loss before taxation to cash (used in)/generated from operations				
Loss before taxation	(76,326)	(1,183,909)	(124,145)	(1,240,251)
Adjustment:				
Depreciation of property and equipment	96,345	89,279	57,274	51,763
Amortisation of intangible assets	47,451	66,136	47,451	66,136
Depreciation expense on right-of-use assets	24,599	33,676	24,599	33,676
Loss on disposal of property and equipment	-	12,085	-	7,559
Interest on borrowings	125,989	155,105	125,989	155,105
Fair value loss on equity investments	575	29,243	575	29,243
Amortisation of intangible asset-customer relationships	198,433	198,434	198,433	198,434
Fair value gain on investment property	-	9,238	-	9,238
Interest on lease liability	6,866	16,181	6,866	16,181
Fair value adjustment on medium term loan	(201,513)	-	(201,513)	-
Movement on terminated leases	(5,185)	-	(5,185)	-
	217,234	(574,532)	130,344	(672,916)
Working capital changes;				
Decrease in loans and advances to customers	571,302	620,482	571,302	620,482
(Increase)/decrease in other assets	(715,181)	8,430	(650,951)	(17,072)
Increase in customer deposits	261,247	670,439	286,566	672,998
(Decrease)/increase in other liabilities	(216,715)	198,601	(214,572)	227,200
Net movement in related party balances	11	(8,329)	(25,093)	(21,898)
Increase/(decrease) in cash ratio requirement	35,856	(35,332)	35,856	(35,332)
Net movement in Government securities	(21,286,353)	211,940	(21,286,353)	211,940
Net cash (used in)/generated from operations	(21,132,599)	1,091,699	(21,152,618)	985,402
(b) Analysis of the balances of cash and cash equivalents				
Cash on hand	206,834	79,651	206,834	79,651
Balances with the Central Bank of Kenya	122,990	(231,630)	122,990	(231,630)
Deposits and balances due from banking institutions	142,596	165,355	142,596	165,355
Deposits and balances due to banking institutions	(2,156,981)	(2,002,307)	(2,156,981)	(2,002,307)
	(1,684,561)	(1,988,931)	(1,684,561)	(1,988,931)

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 NOTES TO THE STATEMENT OF CASH FLOWS – Group and bank (Continued)

	Group		Bank	
	2020	2019	2020	2019
	Sh'000	Sh'000	Sh'000	Sh'000
(c) Analysis of increase in Government Securities				
Movement in Government Securities				
Non-cash flow items – revaluation of available for sale:				
Treasury bonds (note 14(b))	98,546	17,703	98,546	17,703
Included in the cash flow statement	98,546	17,703	98,546	17,703

For the purposes of the cash flow statement, cash equivalents include short-term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months of the reporting date. Cash and cash equivalents excludes the cash ratio requirement balance held with the Central Bank of Kenya since these amounts were not readily available to finance the Bank's daily operations.

35 INVESTMENT REVALUATION RESERVE

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of investments measured at fair value through other comprehensive income excluding impairment losses. The reserve is not distributable to the shareholders.

36 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 or operational decisions.

All transactions with related parties are at arm's length and in the normal course of business and on terms and conditions similar to those applicable to other customers. Details of related party balances and transactions are as follows.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS (Continued)

	Group		Bank	
	2020	2019	2020	2019
	Sh '000	Sh '000	Sh '000	Sh '000
(a) Loans and advances				
At 1 January	-	62,211	-	62,211
Additions	-	-	-	-
Interest charged	-	-	-	-
Repayments	-	(62,211)	-	(62,211)
At 31 December	-	-	-	-
Staff loans and advances	105,025	159,192	105,025	159,192
(b) Due to related company				
Due to Jamii Bora Africa Limited				
At 1 January	123	8,452	123	8,452
Additions	11	-	11	-
Repayments	-	(8,329)	-	(8,329)
At 31 December	134	123	134	123
(c) Due from related companies				
i) Jamii Bora Leasing Limited				
At 1 January	-	-	273,815	263,339
Additions	-	-	20,925	10,476
At 31 December	-	-	294,740	273,815
ii) Jamii Bora Insurance Agency Limited				
At 1 January	-	-	23,652	20,559
Additions	-	-	4,179	3,093
At 31 December	-	-	27,831	23,652
Total	-	-	322,571	297,467

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS (Continued)

(d) Deposits – Group and Bank

	Directors Sh'000	Companies associated to directors Sh'000	Total Sh'000
At 1 January 2019	-	-	-
Deposits	-	-	-
Interest paid	-	-	-
Withdrawals	-	-	-
Balance at 31 December 2019	-	-	-
At 1 January 2020	-	-	-
Deposits	-	-	-
Interest paid	-	-	-
Withdrawals	-	-	-
Balance at 31 December 2020	-	-	-

(e) Key management compensation – Group and Bank

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

	2020 Sh '000	2019 Sh '000
Salaries and other benefits	54,900	98,719
Directors' remuneration		
Fees for services as directors	4,985	8,534
Other emoluments (included in key management compensation above)	2,414	6,325
	7,399	14,859

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CONTINGENCIES INCLUDING OFF BALANCE SHEET ITEMS – Group and Bank

	2020 Sh '000	2019 Sh '000
(a) Collaterals and guarantees	931,961	700,730
	=======	======
(b) Litigation against the Bank	647,746	58,327
	======	======

Litigations against the Bank relate to civil suits lodged against the Bank by customers and other parties in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The directors, however, do not anticipate that any liability will accrue from the pending suits.

38 ASSETS PLEDGED AS SECURITIES

As at 31 December 2020 and 31 December 2019, except as disclosed under note 14, there were no other assets pledged by the Bank to secure liabilities and there were no secured bank liabilities.

39 CAPITAL COMMITMENTS – Group and Bank

The Bank had no authorised capital commitments as at 31 December 2020 (2019 - nil).

40 COUNTRY OF INCORPORATION

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

41 CURRENCY

These financial statements are presented in Kenya shillings thousand (Sh'000).

42 NON FINANCIAL DISCLOSURES

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. It seeks to identify why a loss happened and at the broadest level includes the breakdown by four causes: people, processes, systems and external factors. The Bank has developed, implemented and maintains an enterprise wide Operational Risk Management Framework that is fully integrated into the Bank's overall risk management processes. This Framework for operational risk management is regularly reviewed by senior management and the Board to ensure all risks are covered. The operational framework consists of the following key components that are targeted to help manage the operational risk of the Bank and hence manage incidental risks therein:

(i) Board and senior management oversight

The senior management is responsible for consistently implementing and maintaining policies, processes and systems for managing operational risk in all our material products, services and activities, consistent with the Bank's risk appetite and tolerance.

The board provides oversight on senior management's activities through the board audit and risk committee, which receives quarterly reports of the status of the operational risk facing the Bank. These reports are made by an independent risk function with a direct reporting to the board.

42 NON FINANCIAL DISCLOSURES (Continued)

Operational risk (Continued)

(ii) Policies & procedures

The Bank has documented operational risk policies and procedures, which are aligned to the overall business strategy that clearly define the way all aspects of operational risk are managed. The support the continuous improvement of the risk management environment in the Bank. These policies are communicated to staff and signed off at least once in a year. They define the Bank's overall risk appetite, and are developed based on the requirements of regulatory authorities and input from the Board of Directors and senior Management. The policies also provide guidance to the business units by setting boundaries on the types and levels of risks the Bank is prepared to assume.

Guidelines

These are directives provided to implement policies and limits as set out above. They describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. Risk taking outside these guidelines has to be approved by senior Management of the Bank, or by the Board of Directors, depending on set approval limits

Processes & standards

These are activities associated with identifying, evaluating, documenting, reporting and controlling risk. They define the breadth and quality of information required to make decisions and the expectation in terms of quality of analysis and presentation. At the operating level, these activities must be achieved before risk decisions are taken.

(iii) Measurement, monitoring & control

The Bank places a lot of emphasis in continuous identification and assessment of the various operational risks facing. This helps us to better understand our risk profile and effectively target risk management resources and strategies. In order to do so the Bank, through the risk management department has developed various measurement and reporting tools across products, activities and business units. Such tools include internal data loss collection and analysis, Risk self-assessments, business process mapping and scenario analysis. After measurement , the department monitors the various aspects of operational risk through event logs and escalates any red flags to senior management and if necessary the board for appropriate action. The Bank has rolled out a raft of internal controls and programmes, which provide reasonable assurance that we have efficient and effective operations, we safeguard our assets, and we produce reliable financial reports; and comply with applicable laws and regulations.

The Bank also conducts stress testing for a variety of short-term and protracted institution-specific and operational risks stress scenarios to identify sources of potential operational risks and to ensure that we are prepared to continue in business after minor and major operational risk events.

(iv) Independent review

The Internal audit department and the external auditors independently monitor the effectiveness of the risk management programs and internal controls through periodic testing of the design and operations of processes related to identification, measurement or assessment, monitoring, controlling and reporting of risks. Additionally, the Bank's internal audit programs are derived from a risk based assessment to focus its audit assessment attention to risk areas of the business units deemed high on probability or impact.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING DATE

New strategic investor during the year

The Bank received a legally binding offer, dated 2 June 2020, from The Co-operative Bank of Kenya Limited (Co-operative Bank) for the investment of Sh 1,000,000,000 paid into the bank as a subscription for new class of 224,153,541 ordinary shares at Sh 4.46 per share. These new shares were created and designated to rank pari-passu with the existing ordinary shares and gives Co-operative Bank an equivalent of 90% controlling stake in the bank. The offer was approved by the board of Kingdom Bank Limited (Formerly Jamii Bora Bank Limited) and subsequently by shareholders at an extraordinary general meeting on 1 July 2020. The business transaction was concluded on 18 September 2020.

Pursuant to completion of the transaction, the control of the running of the bank is now under the direction and supervision of The Co-operative Bank of Kenya Limited as the parent company. Considering the matters described above, the directors recognise that there will be a need for significant additional funding of the bank to restore its liquidity and solvency position to, at least, the minimum regulatory requirements. The directors believe that, with the strategic measures that the board is putting in place, the profitability, liquidity and solvency of the bank will be achieved going forward.

Impact of covid-19

From the beginning of 2020, the global economy has been adversely affected by the outbreak of the coronavirus pandemic ("COVID-19"). This pandemic has negatively impacted the global economy leading to an adverse impact on sovereign governments, with suppressed fiscal revenues, increases in health expenditure and reduced international trade negatively affecting government revenues and GDP. Consequently, unemployment as well as adjustments in fiscal and monetary policies to respond to the crisis will impact the regional economies.

In the directors' assessment, it appears at this point that travel, tourism, entertainment, automotive, oil & gas and health industries have been the most affected sectors due to disruptions in supply and demand. The current distribution of the Bank's gross loan assets by sector is as follows: Trade 47%, Personal Households 32%, Real Estate 12%and Building & Construction at 7%.with adequate provisions made against loans and advances to customers. For purposes of these financial statements, the effects of the virus have been considered as non-adjusting post balance sheet events.

The Bank is conducting regular stress tests on its loan assets to assess requisite levels of preparedness, magnitude and potential negative impact. As the pandemic evolves, there is an expectation of repayment delays and/or requests to extend loan repayments due to adverse impacts on borrower cash-flows. This will therefore likely negatively impact the provision for expected credit losses on loans and advances. 31 December 2020, Sh 180 million worth of loan facilities had been approved for restructure on the basis of effects arising from the Covid-19 Impact, with loan facilities worth Sh 751 million having been processed already.

It is anticipated that the COVID-19 pandemic may negatively impact the Bank's financial performance for the year ended 31 December 2020 in respect of interest income, risk mitigation costs, operating expenses and modification losses arising from IFRS 9 requirements. However, it is not practicable for the directors to reliably measure the quantitative impact at this stage due to the evolving nature of the pandemic.

KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya