



**KINGDOM BANK LIMITED
(Formerly JAMII BORA
BANK LIMITED)**

**ANNUAL REPORT
& FINANCIAL
STATEMENTS**

31 DECEMBER 2019

JamiiBora
BANK

Tunaamini Ni Wakati Wako

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
CORPORATE INFORMATION

BOARD OF DIRECTORS	Mrs. Margaret Karangatha	Chairperson	Appointed 18 September 2020
	Mr. Macloud Malonza		Appointed 18 September 2020
	Mr. Gideon Muriuki		Appointed 18 September 2020
	Mr. Juilius Sitienei		Appointed 18 September 2020
	Mr. Anthony Mburu	Managing Director & CEO	Appointed 18 September 2020
	Mr. Richard Kiplagat		Resigned, 18 September 2020
	Mr. Stefan Kaiser*		Resigned, 18 September 2020
	Ms. Nathalie Gabala		Resigned, 5 August 2019
	Mr. Paul Kavuma**		Resigned, 01 October 2019
	Mr. Paul D. P. Nyamodi		Resigned, 18 September 2020
	Mr. Samuel G. Mburu		Resigned, 18 September 2020
	Mr. Samuel Kimani		Resigned, 3 April 2019
Mr. Timothy Kabiru		Resigned, 18 September 2020	

* Swedish

**American

AUDIT COMMITTEE	Mr. Samuel G.Mburu	Chairman
	Mr. Stefan Kaiser	
	Mr. Paul Kavuma	

CREDIT COMMITTEE	Mr. Paul D. P. Nyamodi	Chairman
	Ms. Nathalie Gabala	
	Chief Operations Officer	

HUMAN RESOURCES COMMITTEE	Mr. Paul D. P. Nyamodi	Chairman
	Mr. Stefan Kaiser	
	Ms. Nathalie Gabala	

STRATEGY AND INVESTMENTS COMMITTEE	Ms. Nathalie Gabala	Chairman
	Mr. Paul Kavuma	
	Mr. Stefan Kaiser	

ASSETS AND LIABILITIES COMMITTEE	Mr. Samuel G. Mburu	Chairman
	Mr. Paul Kavuma	
	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 61 120 - 00100
Nairobi

REGISTERED OFFICE

Jamii Bora 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 2019 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 class of 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.

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	
	2019	2018	2019	2018
		Sh'000	Sh '000	Sh'000
Loss before taxation	(1,183,909)	(354,659)	(1,240,251)	(383,400)
Taxation credit/(expense)	160,501	(322,647)	177,016	(312,183)
	_____	_____	_____	_____
Net loss for the year	(1,023,408)	(677,306)	(1,063,235)	(695,583)
	=====	=====	=====	=====

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 2018 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 2019 (2018 – Sh nil).

DIRECTORS

The present board of directors are shown on page 2. Mr. Samuel Kimani, Ms. Nathalie Gabala and Mr. Paul Kavuma ceased to be directors with effect from 3 April, 5 August and 1 October 2019 respectively. Their positions were not filled during the year. Mr. Richard Kiplagat, Mr. Stefan Kaiser, Mr. Samuel G. Mburu, Mr. Paul D.P. Nyamodi and Mr. Timothy Kabiru ceased to be directors on 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 class of 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 and new entity “Kingdom Bank Limited” was born.

The Bank review

Operating Environment

In 2019 the Kenyan economy was negatively affected by a number of factors that led to low performance of the Bank. Some of the factors include;

- A slow uptake of credit experienced in the year due to interest rate cap law introduced in August 2018 and constrained liquidity.
- 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.
- National and County governments taking abnormally long to settle their obligations.

The average inflation rate for the year 2019 was 5.04% down from 7.99% in 2018 as a result of significant political, structural and economic reforms following the “hand shake”. Kenya’s real gross domestic product (GDP) is projected to grow by 90 basis points to 5.8% (2018: 4.90%)

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 2019 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 the future. 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.

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 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.

I. 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 2019.

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 2019. 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 2019.

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 2019 and 2018 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 2019, 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. Paul Kavuma	8	8	100%	Resigned, 1 October 2019
Mr. Samuel Kimani	5	3	60%	Resigned, 3 April 2019
Mr. Timothy Kabiru	10	10	100%	Resigned, 18 September 2020
Ms. Nathalie Gabala	8	7	88%	Resigned 5 August 2019
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

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 and the auditors have included an emphasis of matter in this respect in their auditors' report on page 11.

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 Jamii Bora Bank Limited (the "Bank") and its subsidiaries (together, the "Group"), set out on pages 14 to 90, which comprise the consolidated and bank statements of financial position as at 31 December 2019, 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 accompanying consolidated and bank financial statements give a true and fair view of the financial position of the Group and Bank as at 31 December 2019 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.

Material uncertainty related to going concern basis of the Financial Statements

Without qualifying our opinion, we draw your attention to note 3(b) of the consolidated and the Bank financial statements, which indicates that as at 31 December 2019, the Bank had a regulatory capital ratio of negative 1.8% (2018: positive 8.3%) against a regulatory minimum of 14.5%. The Bank also had total liquidity ratio of negative 23.0% (2018: negative 20%) against a regulatory minimum ratio of 20%. The Bank was therefore not in compliance with the minimum regulatory capital and liquidity requirements as per the regulations by Central Bank of Kenya. In addition, the Group and bank incurred financial losses during the year with the loss after taxation amounting to Sh 940 million (2018 – Sh 686 million) and Sh 979 million (2018 – Sh 704 million) respectively. As at 31 December 2019, the Group and Bank had accumulated losses amounting to Sh 3.4 billion (2018 – Sh 2.5 billion) and Sh 3.5 billion (2018 – Sh 2.5 billion) respectively.

As stated in note 3(b), these events or conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Bank's ability to continue as going concern. Note 3(b) also contains disclosures regarding the measures that the Board has taken or is pursuing to improve the Group's and the Bank's liquidity position and support their continued operation as going concern.

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)

Emphasis of matter

We draw your attention to note 43 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.

Other information

The Directors are responsible for the other information, which comprises the report of the directors, corporate governance statement and the statement of director's 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.

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)

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.
- 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 separate 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 2019

		Group		Bank	
		2019	2018	2019	2018
	Note	Sh'000	Sh'000	Sh'000	Sh'000
INTEREST INCOME	6	670,763	1,223,131	670,763	1,223,131
	1.				
INTEREST EXPENSE	7	(656,490)	(679,312)	(656,490)	(679,312)
NET INTEREST INCOME	1.	14,273	543,819	14,273	543,819
Fees and commission income	8 (a)	164,566	246,629	164,566	244,424
Foreign exchange gains	8 (b)	978	3,480	978	3,480
Other operating income/(loss)	9	113,238	(159,559)	(36,110)	(232,304)
OPERATING INCOME	1.	293,055	634,369	143,707	559,419
Operating expenses	10	(1,266,960)	(1,100,717)	(1,173,460)	(1,055,744)
Net impairment (loss)/recovery on financial assets	17	(160,147)	111,689	(160,641)	112,925
Depreciation on right of use asset	26	(33,676)	-	(33,676)	-
Interest on lease liabilities	32	(16,181)	-	(16,181)	-
LOSS BEFORE TAXATION	1.	(1,183,909)	(354,659)	(1,240,251)	(383,400)
TAXATION CREDIT/(CHARGE)	12	160,501	(322,647)	177,016	(312,183)
LOSS FOR THE YEAR	1. 1.	(1,023,408)	(677,306)	(1,063,235)	(695,583)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Fair value gain/(loss) on re-measurement of investments measured at FVTOCI	14(b)	17,703	(8,824)	17,703	(8,824)
Total other comprehensive income/(loss) for the year		17,703	(8,824)	17,703	(8,824)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,005,705)	(686,130)	(1,045,532)	(704,407)
		=====	=====	=====	=====

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	Group		Bank	
		2019 Sh'000	2018 Sh'000	2019 Sh'000	2018 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	99,724	93,553	99,724	93,553
Government securities	14	507,011	701,248	507,011	701,248
Deposits and balances due from banking institutions	15	165,355	163,923	165,355	163,923
Loans and advances to customers (net)	16	5,709,563	6,330,045	5,709,563	6,330,045
Other assets	18	547,619	556,049	435,696	418,624
Corporate tax recoverable	12(c)	109	109	109	109
Property and equipment	19	579,003	528,510	307,665	317,335
Intangible assets - computer software	20	88,310	154,446	88,310	154,446
Intangible assets-customer relationships	23	198,433	396,867	198,433	396,867
Equity investments	22 (a)	16,662	45,905	16,662	45,905
Investment in subsidiary	22 (b)	-	-	1,139	1,139
Due from related companies	36(c)	-	-	297,467	283,898
Investment property	24	788,000	579,258	788,000	579,258
Deferred tax asset	21	366,626	191,041	374,522	197,506
Right of use assets	26	180,140	-	180,140	-
		_____	_____	_____	_____
TOTAL ASSETS		9,246,555	9,740,954	9,169,796	9,683,856
		=====	=====	=====	=====
LIABILITIES					
Customer deposits	27	4,712,742	4,042,303	4,794,723	4,121,725
Deposits and balances due to banking institutions	28	2,002,307	1,861,643	2,002,307	1,861,643
Commercial bond	29	-	511,348	-	511,348
Medium term loans	30	1,187,883	1,368,224	1,187,883	1,368,224
Other liabilities	31	668,981	470,380	591,966	364,766
Due to related company	36 (b)	123	8,452	123	8,452
Corporate tax payable	12(c)	14,673	3,681	-	-
Lease liability	32	190,628	-	190,628	-
		_____	_____	_____	_____
TOTAL LIABILITIES		8,777,337	8,266,031	8,767,630	8,236,158
CAPITAL RESOURCES					
Share capital	33	1,643,793	1,643,793	1,643,793	1,643,793
Share premium	33	2,311,603	2,311,603	2,311,603	2,311,603
Revenue deficit		(3,502,529)	(2,479,121)	(3,569,581)	(2,506,346)
Investment revaluation reserve	35	16,351	(1,352)	16,351	(1,352)
		_____	_____	_____	_____
SHAREHOLDERS' FUNDS		469,218	1,474,923	402,166	1,447,698
		_____	_____	_____	_____
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		9,246,555	9,740,954	9,169,796	9,683,856

The financial statements on pages 14 to 90 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 2019

	Share capital	Share premium	Revenue deficit	Statutory reserve	Investment revaluation reserve	Property revaluation surplus	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2018 - as previously reported	1,643,793	2,311,603	(553,395)	66,935	7,472	-	3,476,408
IFRS-9 transitional adjustment-note 2b(i)	-	-	(1,315,355)	-	-	-	(1,315,355)
Statutory reserve utilisation-note 2b(i)	-	-	66,935	(66,935)	-	-	-
	_____	_____	_____	_____	_____	_____	_____
At 1 January 2018 - as was restated	1,643,793	2,311,603	(1,801,815)	-	7,472	-	2,161,053
Total comprehensive loss for the year	-	-	(677,306)	-	(8,824)	-	(686,130)
	_____	_____	_____	_____	_____	_____	_____
At 31 December 2018	1,643,793	2,311,603	(2,479,121)	-	(1,352)	-	1,474,923
	=====	=====	=====	=====	=====	=====	=====
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
	=====	=====	=====	=====	=====	=====	=====

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

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over impairment of loans and advances computed per IFRS 9. The statutory reserve is not 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 LIMITED (Formerly JAMII BORA BANK LIMITED)
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Revenue deficit	Statutory reserve	Investment revaluation reserve	Property revaluation surplus	Total
At 1 January 2018 - as previously reported	1,643,793	2,311,603	(575,368)	66,935	7,472	-	3,454,435
IFRS-9 transitional adjustment-note 2b(i)	-	-	(1,302,330)	-	-	-	(1,302,330)
Statutory reserve utilisation-note 2b(i)	-	-	66,935	(66,935)	-	-	-
At 1 January 2018 - as was restated	1,643,793	2,311,603	(1,810,763)	-	7,472	-	2,152,105
Total comprehensive loss for the year	-	-	(695,583)	-	(8,824)	-	(704,407)
At 31 December 2018	1,643,793	2,311,603	(2,506,346)	-	(1,352)	-	1,447,698
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

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

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over impairment of loans and advances computed per IFRS 9. The statutory reserve is not 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 2019

		Group		Bank	
		2019	2018	2019	2018
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash generated from/(used) in operations	34(a)	1,091,699	(277,717)	985,402	(280,229)
Tax paid	12(c)	(4,092)	(632)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Net cash generated from/(used) in operating activities		1,087,607	(278,349)	985,402	(280,229)
		<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	19	(159,080)	(75,663)	(51,500)	(65,783)
Purchase of investment property	24	(217,980)	-	(217,980)	-
Proceeds from disposal of investment property and equipment		7,225	187,000	1,850	179,000
		<hr/>	<hr/>	<hr/>	<hr/>
Net cash (used in)/generated from investing activities		(369,835)	111,337	(267,630)	113,217
		<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of lease liabilities	32	(39,369)	-	(39,369)	-
Medium term loan received	30	-	114,000	-	114,000
Medium term loan repayments	30	(335,446)	-	(335,446)	-
Corporate bond repayment		(511,348)	(121,902)	(511,348)	(121,902)
		<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in financing activities		(886,163)	(7,902)	(886,163)	(7,902)
		<hr/>	<hr/>	<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS		(168,391)	(174,914)	(168,391)	(174,914)
		<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(1,820,540)	(1,645,626)	(1,820,540)	(1,645,626)
		<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34(b)	(1,988,931)	(1,820,540)	(1,988,931)	(1,820,540)
		=====	=====	=====	=====

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.

2. ACCOUNTING POLICIES

(b) 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)

New standards and amendments to published standards effective for the year ended 31 December 2019

Impact of Initial Application of IFRS 16 Leases

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

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Group’s consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS 16 using the modified retrospective approach, without restating the comparative information.

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 2019 (Continued)

Impact of Initial Application of IFRS 16 (Continued)

- (a) Impact of the new definition of a lease

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

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

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

- (b) Impact on Lessee Accounting

- i) Former operating leases

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

Applying IFRS 16, for all leases (except as noted below), the Group:

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

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

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

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

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)

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

Impact of Initial Application of IFRS 16 (Continued)

(b) Impact on Lessee Accounting

ii) Former finance leases

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

(c) Impact on Lessor Accounting

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

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

Because of this change, the Group has reclassified certain of its sub-lease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

(d) Financial impact of the initial application of IFRS 16

Impact on assets, liabilities and equity as at 1st January 2019

	As previously Reported Sh'000	IFRS 16 adjustments Sh'000	After IFRS 16 Adjustments Sh'000
Right-of- Use assets (Note 26)	-	213,815	213,815
Lease Liabilities (Note 32)	-	(213,815)	(213,815)
	_____	_____	_____
Retained Earnings	-	-	-
	=====	=====	=====

The Group and the Bank recognised Kshs 213,815,445 of right-of-use assets and Ksh 213,815,445 of lease liabilities upon transition to IFRS 16.

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)

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

Impact of Initial Application of IFRS 16 (Continued)

(d) Financial impact of the initial application of IFRS 16 (Continued)

	2019
Impact on profit or loss for year ended 31 December 2019	Sh'000
Increase in depreciation of right-of-use asset	33,676
Increase in finance cost	16,181
Decrease in rent expense	(39,396)
	—————
Decrease in profit for the year	10,488
	=====

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use assets and lease liabilities respectively have not been treated as tax allowable deductions. The application of IFRS 16 has an impact on the statement of cash flows of the Bank. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by Sh 23,189,000 (2018: Sh Nil), being the lease payments, and net cash used in financing activities has increased by Sh 16,181,000 (2018: Sh Nil).

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). Their 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)

New standards and amendments to published standards effective for the year ended 31 December 2019 (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)

New standards and amendments to published standards effective for the year ended 31 December 2019 (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 2019

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:

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 17-Insurance	1 January 2021, with earlier application permitted
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture	Yet to be set, however earlier application permitted
Amendments to IFRS 3 Definition of a business	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8- Definition of material	1 January 2020, with earlier application permitted
Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS standards	1 January 2020, with earlier application permitted

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:

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

2. Accounting policies (Continued)

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

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2019
(Continued)

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors do not expect that the adoption of the Standard will have a material impact on the financial statements of the Group.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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

2. ACCOUNTING POLICIES (Continued)

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

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2019 (continued)

Amendments to IFRS 3 Definition of a business

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

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

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

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

Amendments to IAS 1 and IAS 8 Definition of material

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

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

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

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

Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

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

iii) Early adoption of standards

The Group and the Bank did not early adopt new or amended standards in 2019.

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 date.

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 2019. 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.

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

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.

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

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.

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.

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.

NGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
NOTES TO THE FINANCIAL STATEMENTS (continued)

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 losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the 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:

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

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.

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)

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 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:

- 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 recorded a net loss after tax of Sh 1 billion (2018: Sh 677 million) and Sh 1.1 billion (2018: Sh 696 million) respectively during the year ended 31 December 2019 and, as of that date, the Bank had a regulatory capital ratio of -ve 1.8% (2018: +ve 8.3%) against the regulatory minimum of 14.5%. The Bank also had total liquidity ratio of negative (-) 23.0% (2018: negative (-) 20%) against a regulatory minimum ratio of 20%. The Bank was therefore not in compliance with the minimum regulatory capital and liquidity 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, had put the liquidity of the Bank under severe pressure given that a substantial portion of the bank's borrowings have become overdue for settlement. These matters indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Bank's ability to continue as a going concern and to realize its assets and discharge its liabilities in the normal course of business.

The Directors have taken necessary measures to improve capital and liquidity of the Bank and ensure compliance with the regulatory and prudential requirements. Some of the key measures include the following:

- As disclosed in Note 43 of these financial statements, 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 with the injection of Sh 1,000,000,000 in new capital and appointment of a new board of directors as disclosed in page 2.
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.
- Subject to the investment transaction above, the Bank has been in negotiations with some of its major lenders, ResponsAbility and Progression Africa, on a possibility of restructuring of the borrowings which have been disclosed in note 30. These debts are already due for settlement and qualify for a recall by the lenders. However, the bank requested for a restructure which involved moratorium on principal repayments through a standstill period. In addition, included in the deposits and balances due to banking institutions is an amount of Sh 1.98 billion due to the Central Bank of Kenya.

3(b) GOING CONCERN (continued)

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. These negotiations, although constructive, have not been completed by the time of approving the financial statements. The lenders have been notified of the investor transaction and further discussions are expected to be carried out with the new investor post the acquisition.

- The Bank has put in place aggressive strategy for recovery of non-performing loans and advances (NPL). This 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.
- 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 the plans above and, in particular, the on boarding of the new investor, will be successful and will improve the Group and the Bank’s solvency and liquidity position. The key shareholders have been and continue to be appraised of, and involved in the process of the required long-term support and turnaround plan and have continued to lend their support to the Bank. The directors however recognise that there can be no complete assurance that the bank will be successful with its strategic initiatives. If such initiatives and plans are not successful, the group may be forced to limit its business activities or be unable to continue as a going concern which will have a material effect on the operations and financial condition of the group and bank.

Although the directors believe the initiatives will be successful and have prepared the consolidated and bank financial statements on a going concern basis, material uncertainties exist that may cast doubt on the group’s and bank’s ability to continue as going concerns. The audit opinion on our financial statements includes an emphasis of matter paragraph related to this material uncertainty on 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)

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)

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	2019		2018	
		Sh '000	%	Sh '000	%
	Agriculture	10,152	0.18%	26,977	0.43%
	Building and construction	444,817	7.79%	758,480	11.98%
	Wholesale and retail	2,283,589	40.00%	3,202,114	50.59%
	Real estate	777,891	13.62%	942,084	14.88%
	Social community and personal services	2,146,737	37.60%	1,300,079	20.54%
	Transport and communication	46,377	0.81%	100,311	1.58%
		5,709,563	100%	6,330,045	100%
		=====	=====	=====	=====
(ii)	Customer deposits				
	Private Enterprises	1,308,466	28%	1,626,315	40%
	Non-profit institutions and individuals	3,404,276	72%	2,415,988	60%
		4,712,742	100%	4,042,303	100%
		=====	=====	=====	=====
(iii)	Off balance sheet items - (letters of credit and guarantees)				
	Building and construction	238,248	34%	182,346	20.3%
	Transport and communication	98,102	14%	571,997	16.2%
	Others	364,380	52%	145,821	63.5%
		700,730	100%	900,164	100%
		=====	=====	=====	=====

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Management of credit risk (Continued)

Maximum exposure to credit risk before collateral held

	2019		2018	
	Sh' 000	%	Sh' 000	%
On-balance sheet				
Cash and bank balances with Central Bank of Kenya	99,724	1.39%	93,553	1.14%
Government and other securities				
- At amortised cost	304,867	4.25%	516,807	6.31%
- At FVTOCI	202,144	2.82%	184,441	2.25%
Placements with other banks	165,355	2.30%	163,923	2.00%
Loans and advances to customers	5,709,563	79.54%	6,330,045	77.32%
	<hr/>	<hr/>	<hr/>	<hr/>
	6,481,653	90.29%	7,288,769	89.03%
	<hr/>	<hr/>	<hr/>	<hr/>
Off-balance sheet items:				
Guarantees and indemnities	696,744	9.71%	897,927	10.97%
	<hr/>	<hr/>	<hr/>	<hr/>
	7,178,397	100%	8,186,696	100%
	=====	====	=====	=====

The above table represents a worst-case scenario of credit risk exposure to the Group at 31 December 2019 and 31 December 2018, 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, 79.54% of the total maximum exposure is derived from loans and advances to customers (2018: 77.32%) and 7.06% represents investments in debt securities (2018: 8.56%).

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)

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 2019 and loans and receivables 31 December 2018. 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

Sh'000	2019				2018	
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Cash and balances with Central Bank of Kenya;						
Performing	99,744	-	-	-	99,744	93,572
ECL (note 17)	(20)	-	-	-	(20)	(19)
Carrying amount	99,724	-	-	-	99,724	93,553
	=====	=====	=====	=====	=====	=====

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 2019 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)

Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	2019					2018	
	Stage 1	Stage 2	Stage 3	POCI	Total	Total	
Government securities;							
Performing	507,112	-	-	-	507,112	701,390	
	_____	_____	_____	_____	_____	_____	
	507,112	-	-	-	507,112	701,390	
ECL (note 17)	(101)	-	-	-	(101)	(142)	
	_____	_____	_____	_____	_____	_____	
Carrying amount	507,011	-	-	-	507,011	701,248	
	=====	=====	=====	=====	=====	=====	

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	2019					2018	
	Stage 1	Stage 2	Stage 3	POCI	Total	Total	
Deposits and balances due from banking institutions;							
Performing	166,621	-	-	-	166,621	165,178	
	_____	_____	_____	_____	_____	_____	
	166,621	-	-	-	166,621	165,178	
ECL (note 17)	(1,266)	-	-	-	(1,266)	(1,255)	
	_____	_____	_____	_____	_____	_____	
Carrying amount	165,355	-	-	-	165,355	163,923	
	=====	=====	=====	=====	=====	=====	

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)

Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	2019					2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Off-balance sheet items;						
Guarantees and indemnities						
Performing	700,730	-	-	-	700,730	900,164
	_____	_____	_____	_____	_____	_____
	700,730	-	-	-	700,730	900,164
ECL (note 17)	(3,986)	-	-	-	(3,986)	(2,237)
	_____	_____	_____	_____	_____	_____
Carrying amount	696,744	-	-	-	696,744	897,927
	=====	=====	=====	=====	=====	=====

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	2019					2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loans and advances to customers;						
Performing	2,601,981	-	-	-	2,601,981	2,964,632
Under performing	-	468,488	-	-	468,488	825,021
Non-performing	-	-	6,082,597	-	6,082,597	5,515,643
	_____	_____	_____	_____	_____	_____
	2,601,981	468,488	6,082,597	-	9,153,066	9,305,296
ECL allowance	(187,065)	(43,210)	(3,213,228)	-	(3,443,503)	(2,975,251)
	_____	_____	_____	_____	_____	_____
Carrying amount	2,414,916	425,278	2,869,369	-	5,709,563	6,330,045
	=====	=====	=====	=====	=====	=====

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)

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.

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to customers;					
Current	2,204,646	-	-	2,204,646	2,964,632
Overdue < 30 days	397,338	-	-	397,338	825,021
Overdue > 30 days	-	468,485	6,082,597	6,551,082	5,515,643
	=====	=====	=====	=====	=====
Total	2,601,984	468,485	6,082,597	9,153,066	9,305,296
	=====	=====	=====	=====	=====

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.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
FINANCIAL STATEMENTS (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

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 I - 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 I, 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)

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)

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.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

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 be 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.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

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)

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.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Sh '000	Sh '000	Sh '000	Sh '000
Loans and advances to customers				
Loss allowance as at 1 January 2019	(52,675)	204,026	2,823,900	2,975,251
- Transfer to stage 1	-	2,493	69,826	72,319
- Transfer to stage 2	-	(15,726)	12,517	(3,209)
- Transfer to stage 3	-	-	261,960	261,960
New financial assets originated or purchased (POCI)	84,082	12,790	81,122	177,994
Financial assets that have been derecognized	(60,477)	(57,336)	(174,621)	(292,434)
Repayments effect and interest capitalization	19,925	(1,921)	233,618	251,622
	=====	=====	=====	=====
Loss allowance as at 31 December 2019	(9,145)	144,326	3,308,322	3,443,503
	=====	=====	=====	=====

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	
	2019	2018	2019	2018
	Sh'000	Sh'000	Sh'000	Sh'000
Individually assessed impaired loans and Advances - retail	2,811,455	3,028,673	307,533	196,254
- corporate	2,308,603	2,486,970	772,438	492,935
	=====	=====	=====	=====
	5,120,058	5,515,643	1,079,971	689,189
	=====	=====	=====	=====
Discounted value of loans	786,551	4,757,563	-	1,034,415
	=====	=====	=====	=====

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Management of credit risk (Continued)

Loans and advances individually impaired (Continued)

	Loans and advances to customers	
	Gross	Net
	Sh'000	Sh'000
31 December 2019		
Grade 5: Individually impaired	-	-
Grade 3 & 4: Individually impaired	6,551,084	3,668,693
	_____	_____
	6,551,084	3,668,693
	=====	=====
31 December 2018		
Grade 5: Individually impaired	-	-
Grade 3 & 4: Individually impaired	6,204,832	2,411,385
	_____	_____
	6,204,832	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 2019 and 31 December 2018.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)
FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (Continued)

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:

	2019	2018
Discounted value of securities held	Sh'000	Sh'000
For loans classified as:		
Neither past due nor impaired	19,163,634	6,019,049
Past due but not impaired	8,979,276	1,014,128
Impaired	21,862,236	5,791,978
	-----	-----
	50,005,146	12,825,155
	=====	=====
Analysis of nature of collateral held:		
Past due but not impaired		
Property	1,062,914	831,414
Motor vehicle	20,242	38,621
Other	175,808	144,093
	-----	-----
	1,258,964	1,014,128
	=====	=====
Analysis of nature of collateral held:		
Impaired		
Property	8,892,544	4,775,300
Motor vehicle	784,491	291,531
Other	194,196	725,147
	-----	-----
	9,871,231	5,791,978
	=====	=====

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.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

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:

	2019	2018
At 31 December	-23%	-20%
Average for the period	-18.7%	-13.8%
Maximum for the period	-12.0%	-7.1%
Minimum for the period	-23%	-20%
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 2019 and 31 December 2018. The amounts disclosed in the table are the contractual discounted cash flows. All figures are in thousands of Kenya Shillings.

	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
At 31 December 2019								
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	624,760	568,975	405,256	395,738	984,918	1,889,205	1,612,801	6,481,653
(Expected maturity dates)								
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)

Liquidity risk (continued)

	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
At 31 December 2018								
Customer deposits	1,760,150	2,245,142	30,106	2,066	4,839	-	-	4,042,303
Deposits and balances due to banking institutions	-	1,196,864	664,779	-	-	-	-	1,861,643
Commercial bond	-	-	-	511,348	-	-	-	511,348
Medium term loan	-	996,433	-	-	107,672	264,119	-	1,368,224
Due to related parties	-	-	-	8,452	-	-	-	8,452
<hr/>								
Total financial liabilities (contractual maturity dates)	1,760,150	4,438,439	694,885	521,866	112,511	264,119	-	7,791,970
<hr/>								
Financial assets								
Cash and bank balances with Central Bank of Kenya	82,355	-	-	-	-	-	11,198	93,553
Government securities	-	-	165,229	-	11,245	-	524,774	701,248
Deposits and balances due from banking institutions	30,620	133,303	-	-	-	-	-	163,923
Loans and advances to customers	557,872	419,970	421,672	411,769	1,024,815	1,827,383	1,666,564	6,330,045
<hr/>								
Total financial assets (Expected maturity dates)	670,847	553,273	586,901	411,769	1,036,060	1,827,383	2,202,536	7,288,769
<hr/>								
Net liquidity (surplus)/gap *	(1,089,303)	(3,885,166)	(107,984)	(110,097)	923,549	1,563,264	2,202,536	(503,201)
<hr/>								
	=====	=====	=====	=====	=====	=====	=====	=====

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.

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:

	2019	2018
	Sh	Sh
US Dollar	101.22	100.75
GB Pound	133.10	132.15
Euro	115.45	115.78
	=====	=====

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2019 and 31 December 2018. Included in the table are the Group's financial instruments, categorized by currency.

At 31 December 2019	Kshs	USD	GBP	Euro	Others	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	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)
	=====	=====	=====	=====	=====	=====

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

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

Currency risk (continued)

At 31 December 2018

	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	76,860	15,548	703	429	13	93,553
Government securities	701,248	-	-	-	-	701,248
Deposits and balances due from banking institutions	147,824	15,984	-	115	-	163,923
Loans and advances to customers	6,122,843	207,202	-	-	-	6,330,045
	_____	_____	_____	_____	_____	_____
Total financial assets	7,048,775	238,734	703	544	13	7,288,769
	_____	_____	_____	_____	_____	_____
FINANCIAL LIABILITIES						
Customers deposits	3,916,448	125,855	-	-	-	4,042,303
Deposits and balances due to banking institutions	1,850,152	11,491	-	-	-	1,861,643
Commercial bond	511,348	-	-	-	-	511,348
Medium term loan	818,556	549,668	-	-	-	1,368,224
	_____	_____	_____	_____	_____	_____
Total financial liabilities	7,096,504	687,014	-	-	-	7,783,518
	_____	_____	_____	_____	_____	_____
Net foreign currency exposure	(47,729)	(448,280)	703	544	13	(494,749)
	=====	=====	=====	=====	=====	=====

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.

	2019	2018
	Shs'000	Shs'000
10% depreciation of the Kenya Shilling	54,645 =====	44,702 =====

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)

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 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)
	=====	=====	=====	=====	=====	=====

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 2018

	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	-	-	-	-	93,553	93,553
Government securities	-	-	165,371	535,877	-	701,248
Deposits and balances due from banking institutions	30,620	133,303	-	-	-	163,923
Loans and advances to customers	514,224	387,111	768,232	4,660,478	-	6,330,045
	-----	-----	-----	-----	-----	-----
Total financial assets	544,844	520,414	933,603	5,196,355	93,553	7,288,769
	-----	-----	-----	-----	-----	-----
FINANCIAL LIABILITIES						
Customers deposits	1,839,572	2,165,720	32,172	4,839	-	4,042,303
Deposits and balances due to banking institutions	-	1,196,864	664,779	-	-	1,861,643
Commercial bond	-	-	511,348	-	-	511,348
Medium term loan	-	996,434	-	371,790	-	1,368,224
	-----	-----	-----	-----	-----	-----
Total financial liabilities	1,839,572	4,359,018	1,208,299	376,629	-	7,783,518
	-----	-----	-----	-----	-----	-----
Net gap	(1,294,728)	(3,838,604)	274,696	4,819,726	93,553	(494,749)
	=====	=====	=====	=====	=====	=====

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:

	2019 Sh'000	2019 Sh'000
10% increase in interest rates	112,720	105,127
	=====	=====
10% decrease in interest rates	112,720	105,127
	=====	=====

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 2019

	Level 1	Level 2	Level 3	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Financial assets				
Government securities – FVTOC 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
	=====	=====	=====	=====

At 31 December 2018

Financial assets				
Government securities – FVTOCI investments (note 14)	181,441	-	-	181,441
Equity investments (note 22(a))	45,905	-	-	45,905
Investment property (note 24)	-	579,258	-	579,258
	-----	-----	-----	-----
	227,346	579,258	-	806,604
	=====	=====	=====	=====

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

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		Fair value hierarchy	Valuation techniques and key inputs
	31/12/2019 Sh'000	31/12/2018 Sh'000		
Government securities - at FVTOCI investments	202,143	184,441	Level 1	Quoted bid prices in an active manner.
Equity investments	16,662	45,905	Level 1	Quoted bid prices in an active manner.
Investment property	788,000	579,258	Level 2	Replacement value (insurable interest) approach
	=====	=====	=====	

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:

- hold the minimum level of regulatory capital of Sh 1 billion;
- 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%;
- maintain core capital of not less than 10.5% of total deposit liabilities; and
- 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 2019.

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

	2019	2018
	Sh'000	Sh'000
Tier 1 capital		
Share capital	1,643,793	1,643,793
Share premium	2,311,603	2,311,603
Revenue deficit	(3,569,581)	(2,506,346)
Other reserves	16,351	(1,352)
Less: Intangible assets- Customer relationships acquired	(198,433)	(396,867)
Less: Deferred tax asset	(374,522)	(197,506)
	_____	_____
	(170,789)	853,325
	_____	_____
Tier 2 capital		
Statutory reserve	-	-
	_____	_____
Total regulatory capital	(170,789)	853,325
	=====	=====
Risk-weighted assets		
On-balance sheet	8,687,201	9,362,909
Off-balance sheet	700,730	900,164
	_____	_____
Total risk-weighted assets	9,387,931	10,263,073
	=====	=====
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum - 14.5%)	(-ve) 1.81%	8.3%
	=====	=====
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum - 10.5%)	(-ve) 1.81%	8.3%
	=====	=====

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

6	INTEREST INCOME	Group		Bank	
		2019	2018	2019	2018
		Sh'000	Sh'000	Sh'000	Sh'000
	Loans and advances to customers	620,487	1,139,168	620,487	1,139,168
	Deposits and balances due from banking institutions	22,848	3,219	22,848	3,219
	Government securities - At amortised cost	21,806	21,806	21,806	21,806
	Government securities - At FVTOCI	5,622	58,938	5,622	58,938
		-----	-----	-----	-----
		670,763	1,223,131	670,763	1,223,131
		=====	=====	=====	=====
7	INTEREST EXPENSE				
	Interest on customer deposits	444,935	461,156	444,935	461,156
	Interest on borrowings	211,555	218,156	211,555	218,156
		-----	-----	-----	-----
		656,490	679,312	656,490	679,312
		=====	=====	=====	=====
8	FEES AND COMMISSION INCOME				
	Loan related fees and commissions	25,221	67,236	25,221	67,236
	Other fees and commissions	139,345	179,393	139,345	177,188
		-----	-----	-----	-----
		164,566	246,629	164,566	244,424
		=====	=====	=====	=====
	FOREIGN EXCHANGE GAINS				
	Gains on foreign currency dealings arose from trading in foreign currency transactions and on the translation of foreign currency assets and liabilities.				
		Group		Bank	
		2019	2018	2019	2018
		Sh'000	Sh'000	Sh'000	Sh'000
9	OTHER OPERATING (LOSS)/INCOME				
	Fair value loss on equity investments - note 22(a)	(29,243)	(218,048)	(29,243)	(218,048)
	Other income/(loss)	151,719	47,621	2,371	(25,124)
	Fair value (loss)/gain on investment property (note 24)	(9,238)	10,868	(9,238)	10,868
		-----	-----	-----	-----
		113,238	(159,559)	(36,110)	(232,304)
		=====	=====	=====	=====

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

	Group		Bank		
	2019	2018	2019	2018	
	Sh'000	Sh'000	Sh'000	Sh'000	
10	OPERATING EXPENSES				
	Contributions to Deposit Protection Fund	7,808	9,767	7,808	9,767
	Depreciation of property and equipment (note 19)	89,279	77,576	51,763	55,276
	Amortisation of intangible assets (note 20)	66,136	73,293	66,136	73,293
	Amortisation of customer relationships (note 23)	198,434	198,434	198,434	198,434
	Auditors' remuneration- current year	9,850	7,834	8,800	6,489
	Staff costs (note 11)	338,666	291,355	332,701	283,348
	Directors' emoluments - fees	8,534	4,780	8,534	4,780
	- other emoluments	42,855	38,068	42,855	38,068
	Travel, accommodation and entertainment	16,921	11,485	15,621	11,233
	Telephone, postage, internet	16,452	23,012	16,452	23,012
	Subscriptions	11,314	9,462	11,264	9,412
	Legal and professional fees	60,068	90,464	59,886	87,232
	Rent and rates	1,746	28,875	1,221	27,978
	Repairs and maintenance	13,245	14,815	11,857	14,298
	Licenses, permits and insurances	8,007	8,501	7,184	6,177
	General office expenses	293,652	139,176	253,477	133,548
	Advertising, marketing and publicity	17,002	17,789	17,002	17,662
	Printing and stationery	6,144	5,831	6,144	5,788
	Electricity and water	9,208	11,839	9,208	11,839
	Security	39,554	18,030	39,554	18,030
	Loss on disposal of property and equipment	12,085	20,331	7,559	20,080
		-----	-----	-----	-----
		1,266,960	1,100,717	1,173,460	1,055,744
		=====	=====	=====	=====
11	STAFF COSTS				
	Salaries and wages	280,761	216,070	274,796	208,109
	National Social Security Fund - defined contribution	449	446	449	446
	Pension costs - defined contribution plan	9,868	9,590	9,868	9,590
	Medical costs	18,601	9,761	18,601	9,761
	Other staff costs	28,987	55,488	28,987	55,442
		-----	-----	-----	-----
		338,666	291,355	332,701	283,348
		=====	=====	=====	=====
12	TAXATION				
	Taxation (credit)/charge				
	Current taxation charge	15,084	3,999	-	-
	Deferred taxation (credit)/charge - (note 21)	(175,585)	6,465	(177,016)	-
	Prior year deferred tax derecognition (note 21)	-	312,183	-	312,183
		-----	-----	-----	-----
		(160,501)	322,647	(177,016)	312,183
		=====	=====	=====	=====

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

	Group 2019 Sh'000	2018 Sh'000	Bank 2019 Sh'000	2018 Sh'000
12 TAXATION (continued)				
Reconciliation of tax charge to the expected tax based on accounting loss				
Accounting loss before taxation	(1,183,909) =====	(354,659) =====	(1,240,251) =====	(383,400) =====
Tax at the applicable rate of 30%	(355,173)	(106,398)	(372,075)	(115,020)
Tax effect of expenses not allowable for tax purposes	195,192	64,163	195,096	62,664
Tax effect of incomes not subject to tax	(37)	(74,323)	(37)	(74,323)
Deferred tax not recognized*	-	126,679		126,679
Deferred tax not recognised in prior years now recognised	(483)	343	-	-
Prior year deferred tax derecognition (note 21)	-	312,183	-	312,183
	-----	-----	-----	-----
	(160,501) =====	322,647 =====	(177,016) =====	312,183 =====

*As at 31 December 2019, the Group and Bank had accumulated tax losses amounting to Sh 1,218,239,178 (2018 – Sh 2,325,725,000) and Sh 2,324,725,000 (2018 – Sh 1,866,172,000) respectively available to be offset against future taxable profit.

	Group 2019 Sh'000	2018 Sh'000	Bank 2019 Sh'000	2018 Sh'000
Corporate taxation				
At beginning of the year	3,572	205	(109)	(109)
Charge for the year	15,084	3,999	-	-
Tax paid during the year	(4,092)	(632)	-	-
	-----	-----	-----	-----
Tax payable/(receivable)	14,564 =====	3,572 =====	(109) =====	(109) =====
Analysed as follows:				
Corporate tax recoverable	(109) =====	(109) =====	(109) =====	(109) =====
Corporate tax payable	14,673 =====	3,681 =====	-----	- =====

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	
	2019	2018	2019	2018
	Sh'000	Sh'000	Sh'000	Sh'000
Cash on hand	79,651	85,318	79,651	85,318
Balances with Central Bank of Kenya:				
- Cash ratio requirement	251,723	216,392	251,723	216,392
- Other balances	(231,630)	(208,138)	(231,630)	(208,138)
	_____	_____	_____	_____
	99,744	93,572	99,744	93,572
Less ECL allowance (note 4)	(20)	(19)	(20)	(19)
	_____	_____	_____	_____
At 31 December	99,724	93,553	99,724	93,553
	=====	=====	=====	=====

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 2019 the cash ratio requirement in Kenya was 5.25% (2018 – 5.25%) of eligible deposits.

14	GOVERNMENT SECURITIES – Group and Bank	2019	2018	2019	2018
		Sh'000	Sh'000	Sh'000	Sh'000
(a)	Treasury bonds				
	At amortised cost – maturing after 5 years)	304,968	516,949	304,968	516,949
	At Fair value through other comprehensive income (FVTOCI)- Note (b)	202,144	184,441	202,144	184,441
		_____	_____	_____	_____
		507,112	701,390	507,112	701,390
	Less ECL allowance (note 4)	(101)	(142)	(101)	(142)
		_____	_____	_____	_____
		507,011	701,248	507,011	701,248
		=====	=====	=====	=====
(b)	Movement in treasury bonds FVTOCI is as follows:				
	At start of year	184,441	193,265	184,441	193,265
	Fair value gain/(loss)	17,703	(8,824)	17,703	(8,824)
		_____	_____	_____	_____
	At end of year	202,144	184,441	202,144	184,441
		=====	=====	=====	=====

Treasury bonds are debt securities issued by the Government of Kenya and are classified as amortised cost and FVTOCI. The weighted average effective interest rate on treasury bonds at 31 December 2019 was 11.58% (2018 – 11.80%).

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

2019	2018	2019	2018	
Sh'000	Sh'000	Sh'000	Sh'000	
Balances due from banking institutions	22,502	24,771	22,502	24,771
Deposits due from banking institutions	144,119	140,407	144,119	140,407
	_____	_____	_____	_____
	166,621	165,178	166,621	165,178
Less: ECL allowance (note 4)	(1,266)	(1,255)	(1,266)	(1,255)
	_____	_____	_____	_____
	165,355	163,923	165,355	163,923
	=====	=====	=====	=====

The above deposits mature within 3 months after year-end. The effective interest rate on deposits due from banking institutions at 31 December 2019 was 12.25% (2018: 12.25%) and nil for balances due to banking institutions.

	2019	2018
	Sh '000	Sh '000
16 LOANS AND ADVANCES TO CUSTOMERS – Group and Bank		
Loans and advances to customers	8,993,873	9,130,577
Loans and advances to staff	159,193	174,719
	_____	_____
	9,153,066	9,305,296
Less: allowance for ECL (note 4)	(3,443,503)	(2,975,251)
	_____	_____
At 31 December	5,709,563	6,330,045
	=====	=====

Non-performing loans and advances to customers

The aggregate amount of gross non-performing loans and advances as at 31 December 2019 was Sh 6,082,597,000 (2018 - Sh 6,344,272,000).

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

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

	2019	2018
	Sh '000	Sh '000
Maturity of gross loans and advances		
Maturing:		
Within one year	1,318,584	1,669,567
One year to three years	890,008	944,632
Three years to five years	1,587,003	1,684,407
After five years	1,913,968	2,031,439
	—————	—————
	5,709,563	6,330,045
	=====	=====
Gross loans and advances to customers by type		
Overdrafts	736,393	816,420
Term loans	4,973,170	5,513,625
	—————	—————
	5,709,563	6,330,045
	=====	=====

The effective interest rate on loans and advances at 31 December 2019 was 14.73% (2018: 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 CREDIT LOSS EXPENSE

The table below shows the ECL charges on financial instruments for the year recorded in the income statement

Year ended 31 December 2019

	Note	Stage 1 Sh'000	Stage 2 Sh'000	Stage 3 Sh'000	POCI Sh'000	Total Sh'000
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
		=====	=====	=====	=====	=====

Year ended 31 December 2018

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and balances with Central Bank of Kenya	19	-	-	-	-	19
Government securities	142	-	-	-	-	142
Deposits and balances due from banking institutions	4	1,255	-	-	-	1,255
Loans and advances to customers		152,136	40,541	(309,262)	-	(116,585)
Off-balance sheet commitments		2,237	-	-	-	2,237
Other assets	18	7	-	-	-	7
		-----	-----	-----	-----	-----
Total		155,796	40,541	(309,262)	-	(112,925)
		=====	=====	=====	=====	=====

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

	2019 Sh '000	2018 Sh '000
ECL allowance- through SOCI:		
Existing facilities 01 January 2019	83,789	620,908
New financial assets originated or purchased (POCI)	177,994	349,397
	-----	-----
	261,783	970,305
Less; write backs:		
Recovery related	185,912	(689,751)
Financial assets derecognized	(292,434)	(397,139)
	-----	-----
Net ECL allowance on loans and advances to customers	155,261	(116,585)
	=====	=====

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

18. OTHER ASSETS

	Group		Bank	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
Other receivables *	375,924	377,228	251,407	230,079
Prepayments and deposits	157,335	161,592	157,336	161,592
Legal deposits	26,960	26,960	26,960	26,960
	_____	_____	_____	_____
ECL allowance	560,219	565,780	435,703	418,631
	(12,600)	(9,731)	(7)	(7)
	_____	_____	_____	_____
	547,619	556,049	435,696	418,624
	=====	=====	=====	=====

*Included in other receivables is an amount of Sh 33 million (2018: Sh 33 million) representing tenancy agreements that were allocated to the Bank by related parties, Jamii Bora Makao Limited, (related by directorship). The tenancy agreements are in the process of being converted into mortgages, pending the legal process of conversion.

The tenancy agreements have been tested for impairment and a risk weight of 0.02% has been assumed based on the fact that the underlying asset is land awaiting mutation approval from the county government of Kajiado deemed to be an asset of "high" quality. From history and current property trends, land is generally known to appreciate hence the asset is likely to be realized at a much higher value

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

19. PROPERTY AND EQUIPMENT – Group

	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 2018	180,976	486,329	38,465	129,306	835,076
Additions	-	9,882	-	65,781	75,663
Transfer from work in progress	43,194	20,564	5,827	(69,585)	-
Transfer to intangible assets (note 20)	-	-	-	(97,457)	(97,457)
Disposal	(3,223)	(1,627)	(24,846)	-	(29,696)
Write-offs	-	-	-	(13,115)	(13,115)
	_____	_____	_____	_____	_____
At 31 December 2018	220,947	515,148	19,446	14,930	770,471
	_____	_____	_____	_____	_____
Comprising:					
Cost	220,947	515,148	19,446	14,930	770,471
	_____	_____	_____	_____	_____
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
	_____	_____	_____	_____	_____
Comprising:					
Cost	224,846	618,289	24,898	32,314	900,347
	=====	=====	=====	=====	=====

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

19. PROPERTY AND EQUIPMENT – Group (Continued)

	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 2018	30,683	133,957	14,287	-	178,927
Charge for the year	22,032	49,213	6,331	-	77,576
Eliminated on disposal	(1,425)	(793)	(12,324)	-	(14,542)
	_____	_____	_____	_____	_____
At 31 December 2018	51,290	182,377	8,294	-	241,961
	_____	_____	_____	_____	_____
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
	_____	_____	_____	_____	_____
NET BOOK VALUE					
At 31 December 2019	149,416	374,778	22,495	32,314	579,003
	=====	=====	=====	=====	=====
At 31 December 2018	169,657	332,771	11,152	14,930	528,510
	=====	=====	=====	=====	=====

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

19. PROPERTY AND EQUIPMENT – Bank (Continued)

	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 2018	180,976	257,566	7,892	129,306	575,740
Additions	-	-	-	65,783	65,783
Transfer to investment property	43,194	20,564	5,827	(69,585)	-
Transfer to assets held for sale	-	-	-	(97,457)	(97,457)
Disposal	(3,223)	(1,517)	(9,560)	-	(14,300)
Write offs	-	-	-	(13,117)	(13,117)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	220,947	276,613	4,159	14,930	516,649
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	220,947	276,613	4,159	14,930	516,649
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	224,846	289,327	8,097	32,314	554,584
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:					
Cost	224,846	289,327	8,097	32,314	554,584
	=====	=====	=====	=====	=====

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

19. PROPERTY AND EQUIPMENT – Bank (Continued)

	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 2018	30,683	114,617	6,074	-	151,374
Charge for the year	22,032	29,969	3,275	-	55,276
Eliminated on disposal	(1,425)	(721)	(5,190)	-	(7,336)
	_____	_____	_____	_____	_____
At 31 December 2018	51,290	143,865	4,159	-	199,314
	_____	_____	_____	_____	_____
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
	_____	_____	_____	_____	_____
NET BOOK VALUE					
At 31 December 2019	149,416 =====	118,682 =====	7,253 =====	32,314 =====	307,665 =====
At 31 December 2018	169,657 =====	132,748 =====	- =====	14,930 =====	317,335 =====

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

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 2018	311,319
Transfer from property and equipment (note 19)	97,457

At 31 December 2018	408,776

At 1 January 2019	408,776

At 31 December 2019	408,776

AMORTISATION	
At 1 January 2018	181,037
Charge for the year	73,293

At 31 December 2018	254,330

At 1 January 2019	254,330
Charge for the year	66,136

At 31 December 2019	320,466

NET BOOK VALUE	
At 31 December 2019	88,310
	=====
At 31 December 2018	154,446
	=====

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

21. DEFERRED TAX ASSET

	Group		Bank	
	2019	2018	2019	2018
	Sh'000	Sh'000	Sh'000	Sh'000
The net deferred tax asset is attributable to the following items:				
Accelerated capital allowances	107,667	117,459	97,946	110,934
General provisions	(30,388)	(38,273)	(28,262)	(38,273)
Other provisions	(5,298)	(17,736)	(5,298)	(17,676)
Tax losses	(441,900)	(697,417)	(442,201)	(697,417)
Revaluation surplus	3,293	6,064	3,293	6,064
	_____	_____	_____	_____
	(366,626)	(629,903)	(374,522)	(636,368)
Deferred tax not recognised	-	126,679	-	126,679
Prior year deferred tax derecognised	-	312,183	-	312,183
	_____	_____	_____	_____
	(366,626)	(191,041)	(374,522)	(197,506)
	=====	=====	=====	=====
Movement in deferred tax asset is as follows:				
At 1 January	(191,041)	(509,689)	(197,506)	(509,689)
(Credit)/charge to profit or loss (note 12(a))	(175,585)	6,465	(177,016)	-
Prior year deferred derecognised		312,183	-	312,183
	_____	_____	_____	_____
At 31 December	(366,626)	(191,041)	(374,522)	(197,506)
	=====	=====	=====	=====

As at 31 December 2019, the Group and Bank had accumulated tax losses amounting to Sh 2,325,725,000 (2018 – Sh 1,873,453,000) and Sh 2,324,725,000 (2018 – Sh 1,866,172,000) respectively available to be offset against future taxable profit.

	2019	2018
	Sh'000	Sh'000
22 EQUITY INVESTMENTS - Group and Bank		
Investment in quoted company - At fair value through profit and loss (FVTPL)	16,662	45,905
	=====	=====
Uchumi Supermarkets Limited		
At 1 January	45,905	263,953
Fair value loss (note 9)	(29,243)	(218,048)
	_____	_____
At 31 December	16,662	45,905
	=====	=====

The investment in Uchumi Supermarkets Limited is held at fair value through profit or loss. The share price closed at Sh 0.29 as at 31 December 2019 and a revaluation loss of Sh 29 million 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	2019 Sh'000	2018 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 2018. The principal activity of the Bank is leasing business.

		2019 Sh '000	2018 Sh '000
23	INTANGIBLE ASSETS - CUSTOMER RELATIONSHIPS - Group and Bank		
	Customer relationships	396,867	595,301
	Amortisation of intangible asset	(198,434)	(198,434)
	Net carrying value	198,433	396,867
		=====	=====

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 2018, 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 should be amortised over a re-estimated remaining useful life of 3 years. The intangible assets are therefore being amortised over the estimated useful life subject to annual impairment assessment, as per the provisions of the standard.

KINGDOM BANK LIMITED (Formerly JAMII BORA BANK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
24 INVESTMENT PROPERTY - Group and Bank				
At 1 January	579,258	768,800	579,258	768,800
Addition	217,980	-	217,980	-
Fair value (loss) / gain	(9,238)	10,868	(9,238)	10,868
Disposal	-	(200,410)	-	(200,410)
	-----	-----	-----	-----
At 31 December	788,000	579,258	788,000	579,258
	=====	=====	=====	=====

Investment property relates to the building situated on LR no. 1/859 along Arwings Kodhek road in Kilimani, Nairobi. The building is set to be sold or leased as sectional property.

The investment 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 resulting in a total fair value loss of Shs 9,238,000 (2018: fair value gain of Sh 10,868,000).

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 2019 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 2019	-	788,000	-	788,000
	=====	=====	=====	=====
31 December 2018	-	579,258	-	579,258
	=====	=====	=====	=====

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

26 RIGHT-OF-USE ASSET – 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:

	Building
	Sh'000
COST	
At 1 January as previously reported	-
Adjustment on adoption of IFRS 16	213,816

At 31 December	213,816

DEPRECIATION	
At 1 January	-
Charge for the year	33,676

At 31 December	33,676

NET BOOK VALUE	
At 31 December	180,140
	=====

Amounts recognised in profit and loss

Depreciation expense on right-of-use assets	33,676
Interest expense on lease liabilities	16,181

At the end of the year	49,857
	=====

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

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 39 million (2018: 29 million).

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

	Group		Bank	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
27 CUSTOMER DEPOSITS - Group and Bank				
Current and demand accounts	2,149,709	1,912,077	2,231,690	1,991,499
Savings accounts	310,440	360,974	310,440	360,974
Fixed deposit accounts	2,252,593	1,769,252	2,252,593	1,769,252
	_____	_____	_____	_____
	4,712,742	4,042,303	4,794,723	4,121,725
	=====	=====	=====	=====

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

27 CUSTOMER DEPOSITS - Group and Bank (Continued)

	Group		Bank	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
Maturity analysis of customer deposits				
Repayable:				
On demand	2,238,310	1,919,886	2,233,366	1,919,886
Within 90 days	2,474,432	2,122,417	2,561,357	2,201,839
	_____	_____	_____	_____
	4,712,742	4,042,303	4,794,723	4,121,725
	=====	=====	=====	=====

The effective interest rate on interest bearing customer deposits at 31 December 2019 was 9% (2018 - 8.4%). The related party transactions and balances are covered under note 34 and concentrations of customer deposits is covered under note 4 (a).

	2019	2018
	Sh '000	Sh '000
28 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
Group and Bank		
Balances due to banking institutions	2,002,307	1,861,643
	=====	=====

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 2019 was 11.25 % (2018: 11%).

	2019	2018
	Sh '000	Sh '000
29 COMMERCIAL BOND - Group and Bank		
At 1 January	511,348	633,250
Interest paid	(25,348)	(33,250)
Accrued interest 25,348		
Repayment	(486,000)	(114,000)
	_____	_____
At 31 December	-	511,348
	=====	=====
Maturity analysis:		
On demand or within one year	-	511,348
	=====	=====

In August 2013, the Bank issued a 5-year tenor bond with a coupon rate of 13.3% to finance the micro and SME business segments. The bond is redeemable upon giving 90 days' notice and is 50% guaranteed by Africa Guarantee Fund. The bond matured and was repaid in August 2019.

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

30 MEDIUM TERM LOANS – Group and Bank

	2019	2018
	Sh '000	Sh '000
ResponsAbility*	228,666	217,712
Shelter Afrique**	49,844	107,671
Housing Finance Group***	240,618	264,119
Progression Africa****	668,755	663,914
Africa Guarantee Fund for SME Ltd*****	-	114,808
	-----	-----
	1,187,883	1,368,224
	=====	=====
The movement in borrowings is as follows:		
At 1 January	1,368,224	1,217,489
	-----	-----
Loan received - Africa Guarantee Fund for SME Ltd	-	114,000
	-----	-----
Loan repaid- Africa Guarantee Fund for SME Ltd	(114,808)	-
Loan repaid- Housing Finance Group	(59,921)	-
Loan repaid- Shelter Afrique	(72,503)	-
Loan repaid - ResponsAbility	(2,310)	-
Loan repaid- Progression Africa	(85,904)	-
	-----	-----
	(335,446)	-
Accrued interest	155,105	36,735
	-----	-----
At 31 December	1,187,883	1,368,224
	=====	=====
On demand or within one year	1,187,883	996,434
Between 2 to 3 years	-	-
Over 3years	-	371,790
	=====	=====

*The ResponsAbility loan is denominated in United States American Dollars (USD). Its effective interest rate is 5.5% per annum. The loan matured in during the year and negotiations are an on-going for restructure.

** 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 4 years.

*** The Housing Finance Group loan is denominated in Kenya Shillings. Its effective interest rate is 14% per annum. The loan is payable after 7 years. The loan is secured by charge over property L.R No. 209/2540/I L.R No. 1/858 and 1/859.

**** The Progression Africa loan is denominated in Kenya Shillings and United States American Dollars (USD) on fifty percent basis. Its effective interest rate is 13.3% and 5.5% per annum for the Kenya Shillings and United States American Dollars loan respectively. The loan is payable within a year. The loan matured in during the year and negotiations are an on-going for restructure.

***** The Africa Guarantee Fund for SME Ltd loan was denominated in Kenya Shillings. Its effective interest rate was 8.5%.

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

	Group		Bank		
	2019	2018	2019	2018	
	Sh'000	Sh'000	Sh'000	Sh'000	
31	OTHER LIABILITIES				
	Bankers cheque liability	28,244	33,362	28,243	33,362
	Sundry payables	640,737	437,018	563,723	331,404
		668,981	470,380	591,966	364,766
		=====	=====	=====	=====
32	LEASE LIABILITIES				
				Building	
				Sh'000	
	The movement in the lease liabilities is as follows:				
	Balance at 1 January as previously reported			-	
	Adjustment on adoption of IFRS 16			213,816	
				213,816	
	Payment of lease liabilities			(39,369)	
	Interest on lease liabilities			16,181	
				190,628	
	At 31 December			=====	
	Amounts due for settlement within 12 months			42,653	
	Amounts due for settlement after 12 months			147,975	
				190,628	
				=====	

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

2019
Sh '000

2018
Sh'000

33 SHARE CAPITAL – Group and Bank

Authorised:			
51,200,000 Class A ordinary shares of Sh 66 each		3,379,200	3,379,200
		=====	=====
Issued and fully paid:			
24,905,949 (2018: 24,905,949) class A ordinary shares of Sh 66 each		1,643,793	1,643,793
		=====	=====

There was no movement during the year.

	No. of shares	Share capital Sh'000	Share premium Sh'000
At 1 January 2018	21,291,704	1,405,253	2,205,904
Issue of Class A ordinary shares	3,614,245	238,540	105,699
	_____	_____	_____
Balance at 31 December 2018	24,905,949	1,643,793	2,311,603
	=====	=====	=====
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)

	Group		Bank		
	2019	2018	2019	2018	
	Sh'000	Sh'000	Sh'000	Sh'000	
34	NOTES TO THE STATEMENT OF CASH FLOWS - Group and Bank				
(a)	Reconciliation of loss before taxation to cash generated/(used) in operations				
	Loss before taxation	(1,183,909)	(354,659)	(1,240,251)	(383,400)
	Adjustment:				
	Depreciation of property and equipment	89,279	77,576	51,763	55,276
	Amortisation of intangible assets	66,136	73,293	66,136	73,293
	Depreciation expense on right-of-use assets	33,676	-	33,676	-
	Loss on disposal of property and equipment	12,085	20,331	7,559	20,080
	Interest on borrowings	155,105	36,735	155,105	36,735
	Fair value loss on equity investments	29,243	218,048	29,243	218,048
	Amortisation of intangible asset-customer relationships	198,434	198,434	198,434	198,434
	Loss on disposal of investment property	-	21,410	-	21,410
	Fair value loss/(gain) on investment property	9,238	(10,868)	9,238	(10,868)
	Interest on lease liability	16,181	-	16,181	-
		(574,532)	280,300	(672,916)	229,008
	Working capital changes;				
	Decrease in loans and advances to customers	620,482	1,980,933	620,482	1,980,933
	IFRS-9 transitional adjustment	-	(1,248,421)	-	(1,235,395)
	Decrease/(increase) in other assets	8,430	(106,999)	(17,072)	(25,902)
	Decrease in customer deposits	670,439	(1,300,840)	672,998	(1,260,896)
	(Decrease)/increase in other liabilities	198,601	13,031	227,200	(44,777)
	Net movement in related party balances	(8,329)	4,016	(21,898)	(23,465)
	Movement in statutory reserve	-	(66,935)	-	(66,935)
	Decrease in cash ratio requirement	(35,332)	58,540	(35,332)	58,540
	Net movement in Government securities	211,940	108,658	211,940	108,660
	Net cash generated from/(used in) operations	1,091,699	(277,717)	985,402	(280,229)
		=====	=====	=====	=====
(b)	Analysis of the balances of cash and cash equivalents				
	Cash on hand	79,651	85,318	79,651	85,318
	Balances with the Central Bank of Kenya	(231,630)	(208,138)	(231,630)	(208,138)
	Deposits and balances due from banking institutions	165,355	163,923	165,355	163,923
	Deposits and balances due to banking institutions	(2,002,307)	(1,861,643)	(2,002,307)	(1,861,643)
		(1,988,931)	(1,820,540)	(1,988,931)	(1,820,540)
		=====	=====	=====	=====

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	
	2019	2018	2019	2018
	Sh'000	Sh'000	Sh'000	Sh'000
(c)	Analysis of decrease/(increase) in Government Securities			
	Movement in Government Securities			
	Non-cash flow items – revaluation of available for sale:			
	Treasury bonds (note 14(b))	17,703	(8,824)	17,703
		-----	-----	(8,824)
		-----	-----	-----
	Included in the cash flow statement	17,703	(8,824)	17,703
		-----	-----	(8,824)
		-----	-----	-----

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	
	2019	2018	2019	2018
	Sh '000	Sh '000	Sh '000	Sh '000
(a) Loans and advances				
At 1 January	62,211	255,571	62,211	255,571
Additions	-	-	-	-
Interest charged		4,600		4,600
Repayments	(62,211)	(197,960)	(62,211)	(197,960)
	_____	_____	_____	_____
At 31 December	-	62,211	-	62,211
	=====	=====	=====	=====
Staff loans and advances	159,192	174,719	159,192	174,719
	=====	=====	=====	=====
(b) Due to related company				
Due to Jamii Bora Africa Limited				
At 1 January	8,452	4,436	8,452	4,436
Additions	-	4,539	-	4,539
Repayments	(8,329)	(523)	(8,329)	(523)
	_____	_____	_____	_____
At 31 December	123	8,452	123	8,452
	=====	=====	=====	=====
(c) Due from related companies				
i) Jamii Bora Leasing Limited				
At 1 January	-	-	263,339	242,223
Additions	-	-	10,476	21,116
	_____	_____	_____	_____
At 31 December	-	-	273,815	263,339
	_____	_____	_____	_____
ii) Jamii Bora Insurance Agency Limited				
At 1 January	-	-	20,559	14,194
Additions	-	-	3,093	6,365
	_____	_____	_____	_____
At 31 December	-	-	23,652	20,559
	_____	_____	_____	_____
Total	-	-	297,467	283,898
	=====	=====	=====	=====

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

36. RELATED PARTY TRANSACTIONS (Continued)

	Directors Sh'000	Companies associated to directors Sh'000	Total Sh'000
(d) Deposits – Group and Bank			
At 1 January 2018	72,665	134,344	207,009
Deposits	-	-	-
Withdrawals	(72,665)	(134,344)	(207,009)
	_____	_____	_____
Balance at 31 December 2018	-	-	-
	=====	=====	=====
At 1 January 2019	-	-	-
Deposits	-	-	-
Interest paid	-	-	-
Withdrawals	-	-	-
	_____	_____	_____
Balance at 31 December 2019	-	-	-
	=====	=====	=====
(e) Key management compensation – Group and Bank			

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

	2019 Sh '000	2018 Sh '000
Salaries and other benefits	98,719	83,235
	=====	=====
Directors' remuneration		
Fees for services as directors	8,534	4,780
Other emoluments (included in key management compensation above)	6,325	4,711
	_____	_____
	14,859	9,491
	=====	=====
(f) Transactions with related parties		
Interest on loan to Asterisks Holding Limited	-	4,600
	=====	=====

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

37 CONTINGENCIES INCLUDING OFF BALANCE SHEET ITEMS – Group and Bank

		2019	2018
		Sh '000	Sh '000
(a)	Collaterals and guarantees	700,730	900,164
		=====	=====
(b)	Litigation against the Bank	58,327	55,020
		=====	=====

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 2019 and 31 December 2018, 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 2019 (2018 - 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.

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

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.

(i) 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 EVENTS AFTER THE REPORTING DATE

New strategic investor

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 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%. 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. As at end of June 2020, Sh 394 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 160 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.

The logo for JamiiBora Bank features the word "JamiiBora" in a stylized, white, rounded font with a slight shadow effect. Below it, the word "BANK" is written in a clean, white, sans-serif font with wide letter spacing.

JamiiBora
BANK

Tunaamini Ni Wakati Wako