KINGDOM BANK LIMITED
(Formerly JAMII BORA BANK LIMITED)

ANNUAL REPORT & FINANCIAL STATEMENTS

31 DECEMBER 2021

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

Contents

Corporate information

BOARD OF DIRECTORS	Mrs. Margaret Karangatha	Chairperson
	Mr. Macloud Malonza HSC	Member
	Dr. Gideon Muriuki CBS, MBS	Group Managing Director & CEO
	Mr. Julius Sitienei	Member
	Mr. Anthony Mburu	Managing Director & CEO

To leverage on the Cooperative Bank's Corporate Governance expertise and wide experience in the specific matters, the Kingdom Bank's Board in the medium term approved to have all matters relating to Audit, Credit, Staff issues and Risk Management be handled by Cooperative Bank's Group Committees as constituted below:

BOARD AUDIT COMMITTEE	Mrs. Weda Welton	Chairperson
	Mr. Lawrence Karissa	
	Mr. Wanyambura Mwambia	
	Mr. Patrick Githendu	
	Mr. Benedict Simiyu	
BOARD CREDIT COMMITTEE	Mrs. Margaret Karangatha	Chairperson
	Mr. John Murugu OGW	
	Mr. Macloud Malonza HSC	
	Mr. Wilfred Ongoro HSC	
	Mr. Richard L. Kimanthi	
	Dr. Gideon Muriuki CBS, MBS	
BOARD STAFF & NOMINATION COMMITTEE	Mr. John Murugu OGW	Chairperson
	Mrs. Weda Welton	
	Mr. Julius Sitienei	
	Mr. Godfrey K. Mburia	
	Mr. John Murugu OGW	
BOARD RISK COMMITTEE	Mr. Wanyambura Mwambia	Chairperson
	Mr. Lawrence Karissa	
	Mr. Patrick Githendu	
	Mr. Benedict Simiyu	
	Mrs. Margaret Karangatha	

Corporate information (continued)

COMPANY SECRETARY	Image Registrars Certified Public Secretaries (Kenya) Fifth Floor, Barclays Plaza, Loita Street P.O. Box 61120 - 00100 Nairobi
REGISTERED OFFICE	Kingdom Bank Towers Argwings Kodhek Road P.O. Box 22741 - 00400 Nairobi
AUDITORS	Deloitte & Touche LLP 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

Report of the directors

The Directors submit their annual report and the audited financial statements of Kingdom Bank Limited (the "Bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2021 which shows the state of financial affairs of the Group and the Bank.

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	
	2021 Sh'000	2020 Sh'000 Restated	2021 Sh '000	2020 Sh'000 Restated
Profit before tax	549,550	172,002	512,441	124,183
Income tax expense	(29,791)	(151,187)	(14,648)	(134,368)
Profit/(loss) for the year	519,759	20,815	497,793	(10,185)

CONSOLIDATED INFORMATION

The Bank has two registered subsidiary companies, Kingdom Leasing Limited (Formerly Jamii Bora Leasing Limited) and Kingdom Bancassurance Intermediary Limited (Formerly Jamii Bora Insurance Agency Limited), which commenced operations in the year 2016 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 2021 (2020 – Sh nil).

DIRECTORS

The Directors who served in office during the year are shown on page 2.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO AUDITORS

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

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the director has taken all the steps that he 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.

Report of the directors (Continued)

BUSINESS REVIEW

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

The Bank Review

Operating Environment

Following the outbreak of the COVID-19 pandemic in the year 2020 and the resultant effects, the global economic outlook improved in the year 2021, mainly supported by the rollout of vaccines, reopening of economies and "deliberate" fiscal and monetary policy support by governments the world over towards restoration of normalcy to pre-pandemic levels.

Major concerns around the world included increased uncertainties due to the emergence and spread of new COVID-19 variants, rising inflation, supply chain disruptions, unemployment rates, food insecurity, climate change, and rising global demand.

According to the IMF, global growth was projected at 5.9 percent in 2021 and 4.9 percent in 2022. This is marginally lower by 1% for 2021 compared to the July update. The revision was partly due to supply chain disruptions in advanced economies and slow pace of vaccine rollout and uptake in low-income countries.

Overall inflation remained within the target range. The inflation rate increased to 6.5 percent in 2021 from 5.9 percent in December 2021, mainly driven by higher food and fuel prices, and the impact of the recently implemented tax measures in the FY2021/22 Budget.

The Kenyan banking sector remained fairly stable and resilient in the year under review, with strong liquidity and capital adequacy ratios. The average commercial banks liquidity and capital adequacy ratios stood at 56.7 percent and 18.9 percent, respectively.

The sector recorded significant growth in the year 2021 with the aggregate balance sheet increasing from KES 5.68 trillion in June 2021 to KES 5.82 trillion in September. This represents a 2.5% growth. Customer deposits grew from KES 4.25 trillion in June to KES 4.35 trillion representing a 2.3% growth.

The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.6 percent in October 2021, an improvement from 14.2 percent in April 2021. This reflected recovery in business activities as COVID-19 restrictions eased and the rollout of COVID-19 vaccines. Commercial banks' average lending rate remained relatively stable, at about 12.1 percent during the review period

The gross loan book grew from KES 3.11 trillion reported in June to KES 3.19 trillion as at Sept 2021.The NPL ratio Improved by 0.4% to close at 13.6% in September 2021. The improvement was mainly driven by growth in the gross loan by 2.7% compared to a growth in the NPL book by 0.09%. Total risk-weighted assets increased by 2.3% while the total capital increased by 1.5%. Due to the acerated increase in risk weighted assets capital adequacy ratio decreased by 0.1% from 18.9% reported in June to 18.8% in sept 2021

Report of the directors (Continued)

BUSINESS REVIEW (continued)

Market Description and Branch Networks

The Bank has a footprint 17 branches and 3 agencies serving over 200,000 (2020: 136,000) customers.

Products and Services

Over the years, Kingdom Bank Limited 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, Kingdom Bank Limited commits to remain relevant to its clientele. Kingdom Bank Limited'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 2021 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.

Future Outlook

The Bank maintains a positive outlook of the industry and country as a whole and anticipates an improved performance into 2022-. The Bank will continue positioning itself through customer empowerment by offering meaningful financial education, proactively addressing customer needs, community empowerment, offering under one roof integrated financial services. This also includes increasing the penetration and visibility of the digital footprint.

The year 2022 is expected to be more favorable than 2021 with the increased accessibility and uptake of COVID-19 vaccine to contain the corona virus pandemic, re-opening of world economies and deliberate government fiscal and monetary policies favorable to re-activation of global economies.

Management however maintains a level of skepticism, given that 2022 is an election year effects of which cannot be quantified as at the date of this report.

AUDITORS

Deloitte & Touche LLP, 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

Statement on corporate governance

BOARD OF DIRECTORS

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

1. BOARD OF DIRECTORS

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

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

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

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the Board convened and held eight 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 2021 and a similar one is scheduled for 2021.

b) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 35(e) to the financial statements for the year ended 31 December 2021. The Bank advanced loans to Directors and their associated companies as disclosed in Note 35.

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 35 to the financial statements for the year ended 31 December 2021.

2. BOARD COMMITTEES

The Board has in place four committees, namely the Audit Committee, Credit Committee, Board Staff & Nomination committee, and the Risk Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. The committees' duties were duly assigned to the respective Group Committees during the year under review.

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.

Audit Committee

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

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.

Board Staff & Nomination 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.

Risk Committee

The objective of this Committee is to provide independent oversight of the Group's risk management and independent compliance functions in the Bank and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impact, provide independent and objective oversight and review of the information presented by the management to ensure that risk policies and strategies are effectively monitored and managed and taking account of performance and risk appetite, risk trends, risk concentrations and key performance Indicators for risk.

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.

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 2021 and 2020 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 2021, the Board held six 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
Mrs. Margaret Karangatha-Chair	6	6	100%
Mr. Macloud Malonza HSC	6	6	100%
Dr. Gideon Muriuki-CBS, MBS	6	6	100%
Mr. Juilius Sitienei	6	6	100%
Mr. Anthony Mburu	6	6	100%

Director

29 March 2022

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.

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

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 29 March 2022 and signed on its behalf by:

Chairperson

Managing Director

Deloitte.

Independent auditors' report
To the members of kingdom bank limited

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

Opinion

We have audited the accompanying consolidated and separate financial statements of Kingdom Bank Limited (the "Bank") and its subsidiaries (together, the "Group"), set out on pages 14 to 89, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Kingdom Bank Limited as at 31 December 2021 and of its consolidated and separate 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 separate 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.

Other information

The Directors are responsible for the other information, which comprises the report of the Directors, statement on corporate governance and the statement of Directors' responsibilities. The other information does not include the consolidated and separate financial statements and our auditors' report thereon. Our opinion on the consolidated and separate 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 separate 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 separate 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.

Independent auditors' report (continued)

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

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

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act, 2015 and for such internal controls as the Directors determine are necessary to enable the preparation of the consolidated and the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and the separate 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 Group and the Bank or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 separate 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 separate financial statements, including the disclosures, and whether the consolidated and separate 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 to express an opinion on the consolidated and separate 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.

Independent auditors' report (continued)

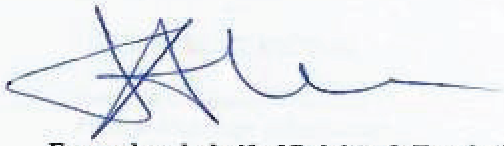
Auditors' responsibilities for the audit of the Consolidated and the Bank Financial Statements (Continued)

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

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is **CPA Fred Aloo, Practicing certificate No. 1537.**



For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi

29 March 2022

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Group 2021 Sh'000	Group 2020 Sh'000 Restated	Bank 2021 Sh'000	Bank 2020 Sh'000 Restated
INTEREST INCOME	6	3,113,598	1,780,777	3,113,598	1,780,777
INTEREST EXPENSE	7	(440,324)	(455,867)	(440,324)	(455,867)
NET INTEREST INCOME		2,673,274	1,324,910	2,673,274	1,324,910
Fees and commission income	8 (a)	158,588	129,449	158,588	129,449
Foreign exchange gains/(losses)	8 (b)	4,278	(30,101)	4,278	(30,101)
Other operating income/(losses)	9	115,545	96,357	13,240	(11,929)
OPERATING INCOME		2,951,685	1,520,615	2,849,560	1,412,329
Operating expenses	10	(2,227,345)	(1,492,232)	(2,169,065)	(1,436,106)
Net expected credit loss on loans and advances to customers	17 (a)	(126,204)	152,117	(126,204)	152,117
Net expected credit loss on other financial assets	17 (b)	(48,586)	(8,498)	(41,850)	(4,157)
PROFIT/(LOSS) BEFORE TAX		549,550	172,002	512,441	124,183
INCOME TAX EXPENSE	12	(29,791)	(151,187)	(14,648)	(134,368)
PROFIT/(LOSS) FOR THE YEAR		519,759	20,815	497,793	(10,185)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Fair value (loss)/gain on re-measurement of investments measured at FVTOCI	14(b)	(104,228)	98,546	(104,228)	98,546
Total other comprehensive (loss)/income for the year		(104,228)	98,546	(104,228)	98,546
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		415,531	119,361	393,565	88,361

KINGDOM BANK LIMITED
CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		Group		Bank	
	Note	2021 Sh'000	2020 Sh'000 Restated	2021 Sh'000	2020 Sh'000 Restated
ASSETS					
Cash and balances with Central Bank of Kenya	13	620,372	545,670	620,372	545,670
Government securities	14	23,650,622	21,891,910	23,650,622	21,891,910
Deposits and balances due from banking institutions	15	318,903	142,596	318,903	142,596
Loans and advances to customers (net)	16	4,432,540	5,588,102	4,432,540	5,588,102
Other assets	18	1,240,000	1,262,800	976,180	1,086,647
Corporate tax recoverable	12(c)	109	109	109	109
Property and equipment	19	1,188,764	1,297,787	978,750	1,045,868
Intangible assets - computer software	20	29,966	40,859	29,966	40,859
Equity investments	22 (a)	13,215	16,087	13,215	16,087
Investment in subsidiaries	22 (b)	-	-	1,139	1,139
Due from related companies	35 (c)	-	-	373,603	322,571
Deferred tax asset	21	222,627	231,888	225,506	240,154
Right of use assets	25	57,689	82,480	57,689	82,480
TOTAL ASSETS		31,774,807	31,100,288	31,678,594	31,004,192
LIABILITIES					
Customer deposits	26	6,275,523	4,973,989	6,380,193	5,081,289
Deposits and balances due to banking institutions	27	1,734,857	2,156,981	1,734,857	2,156,981
Medium term loans	28	253,996	847,716	253,996	847,716
Long term loan	29	20,960,000	20,960,000	20,960,000	20,960,000
Other liabilities	30	476,427	452,266	401,672	377,677
Due to related company	35 (b)	144	134	144	134
Corporate tax payable	12 (c)	6,110	30,755	-	-
Lease liabilities	31	63,640	89,868	63,640	89,868
TOTAL LIABILITIES		29,770,697	29,511,709	29,794,502	29,513,665
SHAREHOLDERS' FUNDS					
Share capital	32	1,867,947	1,867,947	1,867,947	1,867,947
Share premium	32	3,087,449	3,087,449	3,087,449	3,087,449
Statutory credit risk reserve		690,045	449,841	690,045	449,841
Accumulated losses		(3,652,000)	(3,931,555)	(3,772,018)	(4,029,607)
Investment revaluation reserve	34	10,669	114,897	10,669	114,897
SHAREHOLDERS' FUNDS		2,004,110	1,588,579	1,884,092	1,490,527
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		31,774,807	31,100,288	31,678,594	31,004,192

The financial statements on pages 14 to 89 were approved and authorised for issue by the Board of Directors on 29 March 2022 and were signed on its behalf by:

Director

Chief Executive Officer

Director

Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital Sh'000	Share premium Sh'000	Accumulated losses Sh'000	Investment revaluation reserve Sh'000	Statutory credit risk reserve Sh'000	Total Sh'000
At 1 January 2020		1,643,793	2,311,603	(3,502,529)	16,351	-	469,218
Issue of shares	32	224,154	775,846	-	-	-	1,000,000
Total comprehensive income for the year		-	-	20,815	98,546	-	119,361
Transfer to statutory credit risk reserve		-	-	(449,841)	-	449,841	-
At 31 December 2020-as restated		1,867,947	3,087,449	(3,931,555)	114,897	449,841	1,588,579
At 31 December 2020-as previously reported		1,867,947	3,087,449	(3,672,433)	114,897	-	1,397,860
Prior year adjustment	24 (a)	-	-	(201,513)	-	-	(201,513)
Prior year adjustment	24 (a)	-	-	(57,609)	-	-	(57,609)
Prior year adjustment	24 (b)	-	-	-	-	449,841	449,841
At 1 January 2021-restated		1,867,947	3,087,449	(3,931,555)	114,897	449,841	1,588,579
Total comprehensive income for the year		-	-	519,759	(104,228)	-	415,531
Transfer to statutory credit risk reserve		-	-	(240,204)	-	240,204	-
At 31 December 2021		1,867,947	3,087,449	(3,652,000)	10,669	690,045	2,004,110

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.

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 net impairment of loans and advances computed per IFRS 9. The statutory reserve is not distributable.

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital Sh'000	Share premium Sh'000	Accumulated losses Sh'000	Investment revaluation reserve Sh'000	Statutory credit risk reserve Sh'000	Total Sh'000
At 1 January 2020		1,643,793	2,311,603	(3,569,581)	16,351	-	402,166
Issue of shares	32	224,154	775,846	-	-	-	1,000,000
Total comprehensive loss for the year		-	-	(10,185)	98,546	-	(88,361)
Transfer to statutory credit risk reserve		-	-	(449,841)	-	449,841	-
At 31 December 2020-as restated		1,867,947	3,087,449	(4,029,607))	114,897	449,841	1,490,527
At 31 December 2020-as previously reported		1,867,947	3,087,449	(3,770,485)	114,897	-	1,299,808
Prior year adjustment	24 (a)	-	-	(201,513)	-	-	(201,513)
Prior year adjustment	24 (a)	-	-	(57,609)	-		(57,609)
Prior year adjustment	24 (b)	-	-	-	-	449,841	449,841
At 1 January 2021-restated		1,867,947	3,087,449	(4,029,607)	114,897	449,841	1,490,527
Total comprehensive income for the year		-	-	497,793	(104,228)	-	393,565
Transfer to statutory credit risk reserve		-	-	(240,204)	-	240,204	-
At 31 December 2021		1,867,947	3,087,449	(3,772,018))	10,669	690,045	1,884,092

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.

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 net impairment of loans and advances computed per IFRS 9. The statutory reserve is not distributable.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Group 2021 Sh'000	Group 2020 Sh'000 Restated	Bank 2021 Sh'000	Bank 2020 Sh'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(used in) operating activities	33 (a)	1,312,522	(21,132,599)	1,267,346	(21,152,618)
Tax paid	12 (c)	(45,176)	(367)	-	-
Net cash generated from/(used in)/ operating activities		1,267,346	(21,132,966)	1,267,346	(21,152,618)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	19	(24,460)	(27,129)	(24,460)	(7,477)
Net cash used in investing activities		(24,460)	(27,129)	(24,460)	(7,477)
CASH FLOWS FROM FINANCING ACTIVITIES					
Medium term loan repayments	28	(775,298)	(466,156)	(775,298)	(466,156)
Long term loan received	29	-	20,960,000	-	20,960,000
Payment of lease liabilities	31	(31,237)	(29,379)	(31,237)	(29,379)
Proceeds from issue of shares	32	-	1,000,000	-	1,000,000
Mortgage take-over-Co-operative Bank of Kenya Limited	28	181,578	-	181,578	-
Net cash (used in)/generated from financing activities		(624,957)	21,464,465	(624,957)	21,464,465
INCREASE IN CASH AND CASH EQUIVALENTS		617,929	304,370	617,929	304,370
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(1,684,561)	(1,988,931)	(1,684,561)	(1,988,931)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33 (b)	(1,066,632)	(1,684,561)	(1,066,632)	(1,684,561)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 REPORTING ENTITY

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

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

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

2 ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated and separate financial statements of the Bank 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 comprehensive income.

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

i) New standards and amendments to published standards effective for the year ended 31 December 2021

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

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

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16

In March 2021, the IASB issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

Notes to the financial statements (continued)

2 ACCOUNTING POLICIES (Continued)

(a) 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 2021 (Continued)

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16 (continued)

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

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

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

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

In the current financial year, the Group did not apply the practical expedient included in the amendment to IFRS 16 (as issued by the IASB in March 2021). There were no Covid-19 related rent concessions.

ii) New and revised IFRS Standards in issue but not yet effective in the year ended 31 December 2021

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

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018 – 2021 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

iii) Early adoption of standards

The Group and the Bank did not early adopt new or amended standards in 2021.

Notes to the financial statements (continued)

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

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

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries for the year ended 31 December 2021. The Bank's subsidiaries are shown in note 22(b).

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Notes to the financial statements (continued)

2. ACCOUNTING POLICIES (Continued)

Investment in subsidiary

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

Interest income and expense

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

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

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

Fees and commission income

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

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

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

Foreign currency trading income

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

Intangible assets

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

Property and equipment

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

2 ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

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

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

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

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

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

Work in progress

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

Investment properties

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

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

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

Non-current assets held for sale

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

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

2 ACCOUNTING POLICIES (Continued)

Business combinations

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

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

Goodwill arising on an acquisition of a business

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

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

Intangible assets acquired in a business combination

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

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

Intangible assets acquired in a business combination (Continued)

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

Offsetting

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Notes to the financial statements (continued)

2 ACCOUNTING POLICIES (Continued)

Taxation

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

(i) Current taxation

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

(ii) Deferred taxation

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

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

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

(iii) Current and deferred tax for the year

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

Foreign currencies

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

2 ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

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

ii) *Statutory defined contribution pension scheme*

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

iii) *Other employee entitlements*

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

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

Leases

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

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

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

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

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

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

2 ACCOUNTING POLICIES (Continued)

Leases (Continued)

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

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

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

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

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

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

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

Contingent liabilities

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

Comparatives

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

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

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

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

Deferred tax assets

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

Notes to the financial statements (continued)

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

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

Impairment losses on loans and advances

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

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

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

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Group and the Bank provides for 12-month ECLs. These are classified as Stage 1 assets. For credit exposures where there has been a significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

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

(ii) Key sources of estimation and uncertainty

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

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

Probability of default:

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

Loss Given Default:

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

Property and equipment

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

Fair value measurement and valuation

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

Notes to the financial statements (continued)

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

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

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

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

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

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

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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk

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

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. The Group's Credit Department reports to Management Credit Committee, which in turn reports to Board Credit Committee, which is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit Manager and the Managing Director. Larger facilities require approval by the Board Credit Committee or the Main Board as appropriate.

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

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

- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Board Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.

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

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

Introduction and overview (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

Management of credit risk

Concentrations of assets, liabilities and off balance sheet items

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

	2021 Sh '000	%	2020 Sh '000	%
(i) Loans and advances - net				
Agriculture	6,450	0.15%	7,072	0.13%
Building and construction	-	0.00%	207,768	3.72%
Wholesale and retail	1,775,073	40.05%	2,477,346	44.33%
Real estate	730,976	16.49%	829,735	14.85%
Social community and personal services	1,874,381	42.29%	2,014,077	36.04%
Transport and communication	45,660	1.03%	52,104	0.93%
	4,432,540	100%	5,588,102	100%
(ii) Customer deposits				
Private Enterprises	1,276,469	20%	1,280,254	27%
Non-profit institutions and individuals	4,999,054	80%	3,693,735	73%
	6,275,523	100%	4,973,989	100%
(iii) Off balance sheet items – (letters of credit and guarantees)				
Building and construction	240,334	43%	270,269	29%
Transport and communication	5,900	1%	111,835	12%
Others	315,032	56%	549,857	59%
	561,266	100%	931,961	100%

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Maximum exposure to credit risk before collateral held

	2021 Sh' 000	%	2020 Sh' 000	%
On-balance sheet				
Cash and bank balances with Central Bank of Kenya	620,372	2.10%	545,670	1.88%
Government and other securities				
- At amortised cost	294,557	1.00%	299,323	1.03%
- At FVTOCI	23,356,066	78.95%	21,592,587	74.21%
Placements with other banks	318,903	1.08%	142,596	0.49%
Loans and advances to customers	4,432,540	14.98%	5,588,102	19.20%
	29,022,438	98.10%	28,168,278	96.80%
Off-balance sheet items:				
Guarantees and indemnities	561,266	1.90%	929,871	3.20%
	29,583,704	100.00%	29,098,149	100%

The above table represents a worst-case scenario of credit risk exposure to the Group at 31 December 2021 and 31 December 2020, 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, 14.98% of the total maximum exposure is derived from loans and advances to customers (2020: 19.20%) and 79.95% represents investments in debt securities (2020: 75.24%)

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

The following table sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost 31 December 2021. 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	Stage 1	Stage 2	2021 Stage 3	POCI	Total	2020 Total
Cash and balances with Central Bank of Kenya;						
Performing	620,496	-	-	-	620,496	545,779
	620,496	-	-	-	620,496	545,779
ECL (note 17(b))	(124)	-	-	-	(124)	(109)
Carrying amount	620,372	-	-	-	620,372	545,670

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 2021 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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	**Stage 1**	**Stage 2**	**2021 Stage 3**	**POCI**	**Total**	**2020 Total**
Government securities;						
Performing	23,655,354	-	-	-	23,655,354	21,896,368
	23,655,354	-	-	-	23,655,354	21,896,368
ECL (note 17)	(4,732)	-	-	-	(4,732)	(4,458)
Carrying amount	23,650,622	-	-	-	23,650,622	21,891,910

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

Sh'000	**Stage 1**	**Stage 2**	**2021 Stage 3**	**POCI**	**Total**	**2020 Total**
Deposits and balances due from banking institutions;						
Performing	321,345	-	-	-	321,345	145,469
	321,345				321,345	145,469
ECL (note 17)	(2,442)	-	-	-	(2,442)	(2,873)
Carrying amount	318,903	-	-	-	318,903	142,596

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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Sh'000	**Stage 1**	**Stage 2**	**2021 Stage 3**	**POCI**	**Total**	**2020 Total**
Off-balance sheet items;						
Guarantees and indemnities Performing	561,266	-	-	-	561,266	931,961
	561,266	-	-	-	561,266	931,961
ECL (note 17)	(41,971)	-	-	-	(41,971)	(2,090)
Carrying amount	519,295	-	-	-	519,295	929,871

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

Classification of loans and advances

Sh'000	**Stage 1**	**Stage 2**	**2021 Stage 3**	**POCI**	**Total**	**2020 Total**
Loans and advances to customers;						
Performing	1,668,178	-	-	-	1,668,178	1,912,645
Under performing	-	387,414	-	-	387,414	207,532
Non-performing	-	-	6,016,412	-	6,016,412	6,786,738
	1,668,178	387,414	6,016,412	-	8,072,004	8,906,915
ECL allowance (note 17)	(37,602)	(143,561)	(3,458,301)	-	(3,639,464)	(3,318,813)
Carrying amount	1,630,576	243,853	2,228,111	-	4,432,540	5,588,102

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

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

	2021	2020
	Sh '000	Sh '000
ECL allowance on loans and advances to customers		
at 01 January	3,318,813	3,443,503
ECL allowance on loans and advances	408,379	297,724
Transfer to statutory credit risk reserve (note 24)	(240,204)	(449,841)
ECL allowance on off balance sheet items (note 17)	(41,971)	-
Charge/(credit)-through SOCI (note 17)	126,204	(152,117)
Add; write offs:		
Recovery related	73,315	22,092
Financial assets derecognised-pay-offs	121,132	5,335
	194,447	27,427
at 31 December	3,639,464	3,318,820

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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Loans and advances-under-performing

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

Classification of loans and advances

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

		2021			2020
Loans and advances to customers;	Stage 1	Stage 2	Stage 3	Total	Total
Current	1,669,717	-	-	1,669,717	1,912,645
Overdue < 30 days	-	387,414	-	387,414	207,532
Overdue > 30 days	-	-	6,014,873	6,014,873	6,786,738
Total	1,669,717	387,414	6,014,873	8,072,004	8,906,915

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

Determining whether credit risk has increased significantly

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

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

The following qualitative criteria is applied:

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

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

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

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

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

Credit risk grades

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

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

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

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

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

Modified financial assets

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

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

Modified financial assets

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

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

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

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

Inputs into measurement of ECLs

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

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

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

PD

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

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

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

PD (Continued)

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

Loss Given Default (LGD)

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

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

Exposure at Default

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

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

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

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

Financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Amount arising from ECL

Loss allowance

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

Loans and advances to customers	**Stage 1 12-month ECL Sh '000**	**Stage 2 Lifetime ECL Sh '000**	**Stage 3 Lifetime ECL Sh '000**	**Total Sh '000**
Loss allowance as at 1 January 2021	11,817	10,744	3,296,252	3,318,813
– Transfer to stage 1	(32,033)	(161)	(394)	(32,588)
– Transfer to stage 2	(8,737)	(127,526)	(7,188)	(143,451)
– Transfer to stage 3	(1,959)	(19,646)	-	(21,605)
New financial assets originated or purchased (POCI)	865,109	21,149	348,477	1,234,735
Financial assets that have been derecognized	(271,855)	(182)	(332,093)	(604,130)
Repayments effect and interest capitalization	(59,864)	(369)	(52,077)	(112,310)
Loss allowance as at 31 December 2021	502,478	(115,991)	2,906,167	3,639,464

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 2021 Sh'000	2020 Sh'000	Overdrafts 2021 Sh'000	2020 Sh'000
Individually assessed impaired loans and Advances - retail	2,579,039	3,113,795	375,336	317,814
- corporate	2,117,757	2,556,867	942,741	798,262
	4,696,796	5,670,662	1,318,077	1,116,076
Discounted value of securities	3,742,224	13,389,640	1,457,561	2,461,869

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Loans and advances individually impaired (Continued)

	Loans and advances to customers	
	Gross	**Net**
31 December 2021	Sh'000	Sh'000
Grade 5: Individually impaired	2,156,263	1,398,024
Grade 3 & 4: Individually impaired	3,882,430	2,573,058
	6,038,693	3,971,082
31 December 2020		
Grade 5: Individually impaired	-	-
Grade 3 & 4: Individually impaired	6,994,270	3,687,274
	6,994,270	3,687,274

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 2021 and 31 December 2020.

Financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

Collateral held (Continued)

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

	2021 Sh'000	2020 Sh'000
Discounted value of securities held		
For loans classified as:		
Neither past due nor impaired	3,449,674	5,156,100
Past due but not impaired	670,985	610,633
Impaired	5,199,785	10,084,776
	9,320,444	15,851,509
Analysis of nature of collateral held:		
Past due but not impaired		
Property	519,352	534,799
Motor vehicle	50,798	15,161
Other	100,835	566,759
	670,985	1,116,719
Analysis of nature of collateral held:		
Impaired		
Property	3,014,304	7,387,714
Motor vehicle	179,221	192,787
Other	2,006,260	2,504,276
	5,119,785	10,084,777

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT

Covid – 19 impact assessment of the overall performance of the bank's portfolio for the financial period ended 31 December 2021 is as per the table below

JUDGEMENT	Retail & Corporate
Determination of whether the credit risk of financial instruments have increased significantly since initial recognition	Although COVID-19 has had a negative impact on the economy in which the Bank operates, in isolation COVID-19 initially reflected an increase in erosion of liquidity for the bank rather than the inherent increase in credit risk for the entire portfolio of advances held. This was by and large due to the unique nature of the bank's loan portfolio where a bulk of it is either matured or technically performing thereby informing the decision not to impose a blanket downgrade on all ECL stages. A more systematic and targeted approach to the impact of COVID-19 on the Bank's customer base was thus undertaken, following the bank's existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends as well. As such, the bank did not view requests for payment deferral and liquidity support as the sole indicators that SICR had occurred for the performing advances. IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This presupposes that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. The bank however, holds the opinion that where through mutual agreement with the customer, the bank agrees to a deferral of payment(s) for a period of time, such deferral does not necessarily translate into a trigger effect for counting of days past due unless the customer reneges on agreement reached.
SICR assessment of COVID 19 relief exposures	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis for stage 2 and 3 advances. SICR triggers are based on client behaviour, client-based behaviour scores and judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk. These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT(Continued)

<table>
<tr><td>Sensitivity Staging</td><td>
As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses.
The move from 12-month expected credit loss to lifetime expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the total ECL provisions that the bank would carry in its books if all facilities with greater than 90 days past due and all restructures were restaged.
<table>
<tr><th colspan="3">DEC-2021</th></tr>
<tr><th></th><th>Base</th><th>Restaged</th></tr>
<tr><td>Stage 1</td><td>79,573</td><td>23,871</td></tr>
<tr><td>Stage 2</td><td>143,560</td><td>167,432</td></tr>
<tr><td>Stage 3</td><td>3,416,331</td><td>3,589,246</td></tr>
<tr><td>Total</td><td>3,639,464</td><td>3,780,549</td></tr>
</table>
Comparative information has not been provided since IFRS 9 is refined and embedded in the bank's reporting process. The above table sets out the total ECL provisions if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the advance was moved from stage 2 to stage 3 as at 31 December 2021.
The impairment recognised as of 31 December 2021 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note.
</td></tr>
</table>

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

COVID – 19 IMPACT ON LOAN IMPAIRMENT(Continued)

Treatment of financial relief offered in response to the impacts of COVID-19	The bank offered financial relief through various mechanisms in response to COVID- 19. These included the following: • restructure of existing exposures with no change in the present value of the estimated future cash flows; and • restructure of existing exposures with a change in the present value of the estimated future cash flows. Prior to COVID-19 relief being granted, the customers were assessed against eligibility for relief criteria. In doing so, the bank was able to identify customers who were in good standing but were facing financial distress due to the impact of COVID-19 directly or indirectly. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 31 March 2021, any restructuring of the customer's facilities was deemed to be permanent in nature. Where relief is expected to be temporary in nature and as such qualifies as a non-distressed restructure, the staging of the exposure as at 31 March 2021 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with the group's normal practice. The ECL for all exposures on which relief has been offered are accordingly adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the bank's portfolio.
Determination of whether a financial asset is credit impaired	Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to repay their credit obligations in full without any recourse action by the bank, such as the realisation of security. Distressed restructures of accounts in stage 2 are also considered to be default events. For a loan account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant remediation committee. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk

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

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

Liquidity risk based on undiscounted cash flows

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

	2021	2020
At 31 December	+358.9%	+362.2%
Average for the period	+387.8%	+128.2%
Maximum for the period	+425.3%	+367.8%
Minimum for the period	+356.0%	-37.3%
Statutory minimum requirement	+20%	+20%
	=====	=====

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 2021 and 31 December 2020. 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 2021								
Customer deposits	2,130,329	3,021,053	487,850	683,732	57,229	-	-	6,380,193
Deposits and balances due to banking institutions	1,734,856	-	-	-	-	-	-	1,734,857
Medium term loan	-	-	-	75,036	-	178,960	-	253,996
Long term loan	-	-	-	-	-	2,994,285	17,965,715	20,960,000
Due to related parties	-	-	-	-	144	-	-	144
Total financial liabilities (contractual maturity dates)	3,865,185	3,021,053	487,850	758,768	57,373	3,173,245	17,965,715	29,329,190
Financial assets								
Cash and bank balances with Central Bank of Kenya	620,372	-	-	-	-	-	-	620,372
Government securities	-	-	-	100,000	1,534,990	288,936	21,726,696	23,650,622
Deposits and balances due from banking institutions	68,877	250,026	-	-	-	-	-	318,903
Loans and advances to customers	1,581,750	791,112	111,032	362,629	589,919	528,330	467,768	4,432,540
Total financial assets (expected maturity dates)	2,270,999	1,041,138	111,032	462,629	2,124,909	817,266	22,194,464	29,022,437
Net liquidity (surplus)/gap *	1,594,186	1,979,915	376,818	296,139	(2,067,536)	2,355,979	(4,228,749)	306,753

* 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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

b) 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 2020								
Customer deposits	1,669,313	2,700,974	228,112	366,355	9,235	-	-	4,973,989
Deposits and balances due to banking institutions	2,156,981	-	-	-	-	-	-	2,156,981
Medium term loan	-	-	-	847,716	-	-	-	847,716
Long term loan	-	-	-	-	-	2,994,285	17,965,715	20,960,000
Due to related parties	-	-	-	-	-	134	-	134
Total financial liabilities (contractual maturity dates)	3,826,294	2,700,974	228,112	1,214,071	9,235	2,994,419	17,965,715	28,938,820
Financial assets								
Cash and bank balances with Central Bank of Kenya	545,670	-	-	-	-	-	-	545,670
Government securities	-	-	-	-	2,042,822	94,620	19,754,468	21,891,910
Deposits and balances due from banking institutions	42,435	100,161	-	-	-	-	-	142,596
Loans and advances to customers	456,711	343,815	345,209	337,101	838,982	1,452,082	1,364,361	5,138,261
Total financial assets (expected maturity dates)	1,044,816	443,976	345,209	337,101	2,881,804	1,546,702	21,118,829	27,718,437
Net liquidity (surplus)/gap *	2,781,478	2,256,998	(117,097)	876,970	(2,872,569)	1,447,851	(3,153,114)	1,220,383

* 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.

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk

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

(i) Currency risk

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

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

	2021 Sh	2020 Sh
US Dollar	113.26	109.25
GB Pound	152.88	147.53
Euro	128.26	134.44

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2021 and 31 December 2020. Included in the table are the Group's financial instruments, categorized by currency.

At 31 December 2021	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	531,639	76,423	3,916	8,381	13	620,372
Government securities	23,650,622	-	-	-	-	23,650,622
Deposits and balances due from banking institutions	234,155	10,473	5,339	68,936	-	318,903
Loans and advances to customers	4,405,414	27,083	7	36	-	4,432,540
Total financial assets	28,821,830	113,979	9,262	77,353	13	29,022,437
FINANCIAL LIABILITIES						
Customers deposits	6,045,436	229,137	198	753	-	6,275,523
Deposits and balances due to banking institutions	1,734,857	-	-	-	-	1,734,857
Medium term loan	178,960	75,036	-	-	-	253,996
Long term loan	20,960,000	-	-	-	-	20,960,000
Total financial liabilities	28,919,253	304,173	198	753	-	29,224,376
Net foreign currency exposure	(306,763)	(190,194)	9,064	76,600	13	(201,939)

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2020	Kshs Sh'000	USD Sh'000	GBP Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	538,983	5,473	144	1,070	-	545,670
Government securities	21,891,910	-	-	-	-	21,891,910
Deposits and balances due from banking institutions	-	129,329	474	12,793	-	142,596
Loans and advances to customers	5,556,357	31,695	8	42	-	5,588,102
Total financial assets	27,987,250	166,497	626	13,905	-	28,168,278
FINANCIAL LIABILITIES						
Customers deposits	4,958,533	14,715	154	587	-	4,973,989
Deposits and balances due to banking institutions	2,144,650	12,331	-	-	-	2,156,981
Medium term loan	397,147	450,569	-	-	-	847,716
Long term loan	20,960,000	-	-	-	-	20,960,000
Total financial liabilities	28,460,330	477,615	154	587	-	28,938,686
Net foreign currency exposure	(473,080)	(311,118)	472	13,318	-	(770,408)

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.

	2021 Shs'000	2020 Shs'000
10% depreciation of the Kenya Shilling	10,423	24,429

(ii) Interest rate risk

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

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk Continued)

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

At 31 December 2021

	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	-	-	-	-	620,372	620,372
Government securities	-	-	1,634,990	22,015,632	-	23,650,622
Deposits and balances due from banking institutions	68,877	250,026	-	-	-	318,903
Loans and advances to customers	1,581,750	791,112	473,661	1,586,017	-	4,432,540
Total financial assets	1,650,627	1,041,138	2,108,651	23,601,649	620,372	29,022,437
FINANCIAL LIABILITIES						
Customers deposits	2,025,659	3,021,053	1,171,582	57,229	-	6,275,523
Deposits and balances due to banking institutions	-	-	-	-	1,734,857	1,734,857
Medium term loan	-	-	75,036	178,960	-	253,996
Long term loan	-	-	-	-	20,960,000	20,960,000
Total financial liabilities	2,025,659	3,021,053	1,246,618	236,189	22,694,857	29,224,376
Net gap	(584,372)	(1,979,915)	862,033	23,365,460	(22,074,485)	(201,939)

Notes to the financial statements (continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

(ii) Interest rate risk (Continued)

At 31 December 2020

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing Years	Total
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	-	-	-	-	545,670	545,670
Government securities	-	-	2,042,822	19,849,088	-	21,891,910
Deposits and balances due from banking institutions	42,435	100,161	-	-	-	142,596
Loans and advances to customers	456,711	343,815	682,310	4,105,266	-	5,588,102
Total financial assets	499,146	443,976	2,725,132	23,954,354	545,670	28,168,278
FINANCIAL LIABILITIES						
Customers deposits	1,669,313	2,700,974	594,467	9,235	-	4,973,989
Deposits and balances due to banking institutions	-	-	-	-	2,156,981	2,156,981
Medium term loan	-	-	-	847,716	-	847,716
Long term loan	-	-	-	-	20,758,487	20,758,487
Total financial liabilities	1,669,313	2,700,974	594,467	856,951	22,915,468	28,737,173
Net gap	(1,170,167)	(2,256,998)	2,130,665	23,097,403	(22,369,798)	(568,895)

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:

	2021 Sh'000	2020 Sh'000
10% increase in interest rates	(153,062)	(211,591)
10% decrease in interest rates	326,042	215,959

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

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 2021	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Financial assets				
Government securities – FVTOCI investments (note 14)	23,356,066	-	-	23,356,066
Equity investments (note 22(a))	13,215	-	-	13,215
	23,369,281	-	-	23,369,281
At 31 December 2020				
Financial assets				
Government securities – FVTOCI investments (note 14)	21,601,442	-	-	21,601,442
Equity investments (note 22(a))	16,087	-	-	16,087
	21,617,529	-	-	21,617,529

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (continued)

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

Financial instruments measured at fair value (Continued)

Determination of fair value and fair values hierarchy (Continued)

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

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

Assets liabilities	Fair values as at 31/12/2021 Sh'000	31/12/2020 Sh'000	Fair value hierarchy	Valuation techniques and key inputs
Government securities - at FVTOCI investments	23,356,066	21,601,442	Level 1	Quoted bid prices in an active manner.
Equity investments	13,215	16,087	Level 1	Quoted bid prices in an active manner.

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

5 CAPITAL MANAGEMENT

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

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

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

The Central Bank of Kenya requires each bank to:

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

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 2021.

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

	2021 Sh'000	2020 Sh'000 Restated
Tier 1 capital		
Share capital	1,867,947	1,867,947
Share premium	3,087,449	3,087,449
Revenue deficit	(3,772,018)	(4,029,607)
Less: Deferred tax asset	(225,506)	(297,763)
Fair value gain/(loss) on re-measurement of investments measured at FVTOCI	93,559	(98,546)
	1,051,431	529,480
Tier 2 capital		
Statutory credit risk reserve	690,045	449,841
Total regulatory capital	1,741,476	979,321
Risk-weighted assets		
On-balance sheet	7,058,339	7,426,957
Off-balance sheet	561,266	931,961
Total risk-weighted assets	**7,619,605**	**8,358,918**
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum – 14.5%)	24.70%	13.20%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum – 10.5%)	14.90%	7.10%

Notes to the financial statements (continued)

6 INTEREST INCOME	Group 2021 Sh'000	Group 2020 Sh'000	Bank 2021 Sh'000	Bank 2020 Sh'000
Loans and advances to customers	507,488	514,314	507,488	514,314
Deposits and balances due from banking institutions	20,105	39,905	20,105	39,905
Government securities – At FVTOCI	2,557,420	1,191,339	2,557,420	1,191,339
Government securities – At amortised cost	28,585	35,219	28,585	35,219
	3,113,598	1,780,777	3,113,598	1,780,777
7 INTEREST EXPENSE				
Interest on customer deposits	401,298	387,701	401,298	387,701
Interest on borrowings	39,026	68,166	39,026	68,166
	440,324	455,867	440,324	455,867
8 (a) FEES AND COMMISSION INCOME				
Loan related fees and commissions	18,619	16,201	18,619	16,201
Other fees and commissions	139,969	113,248	139,969	113,248
	158,588	129,449	158,588	129,449
(b) FOREIGN EXCHANGE (LOSSES)/GAINS	4,278	30,101	4,278	(30,101)

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

9 OTHER OPERATING (LOSS)/INCOME	Group 2021 Sh'000	Group 2020 Sh'000	Bank 2021 Sh'000	Bank 2020 Sh'000
Other income/(loss)	115,545	96,357	13,240	(11,929)
	115,545	96,357	13,240	(11,929)

Notes to the financial statements (continued)

	Group		Bank	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
10 OPERATING EXPENSES				
Contributions to Deposit Protection Fund	8,870	6,793	8,870	6,793
Depreciation of property and equipment (note 19)	90,896	96,345	51,825	57,274
Amortisation of intangible assets (note 20)	10,893	47,451	10,893	47,451
Amortisation of customer relationships (note 23)	-	198,433	-	198,433
Auditors' remuneration- current year	8,851	8,350	7,632	7,200
Staff costs (note 11)	302,975	286,635	295,441	280,521
Directors' emoluments - fees	6,059	4,402	6,059	4,402
- other emoluments	1,480	27,611	1,480	27,611
Travel, accommodation and entertainment	7,732	10,070	7,666	10,028
Telephone, postage, internet	21,930	22,694	21,930	22,694
Subscriptions	20,276	10,457	20,276	10,407
Legal and professional fees	673,601	107,591	673,601	107,458
Rent and rates	525	525	-	-
Repairs and maintenance	19,091	11,636	18,362	11,581
Licenses, permits and insurances	7,736	9,118	6,347	7,364
General office expenses	855,390	551,267	850,477	544,035
Advertising, marketing and publicity	57,150	10,126	57,150	10,126
Printing and stationery	8,978	6,543	8,978	6,543
Electricity and water	10,045	9,090	10,045	9,090
Security	33,937	35,055	33,937	35,055
Loss on disposal of property and equipment	19,887	-	17,053	-
Depreciation on right of use assets (note 25)	30,462	24,599	30,462	24,599
Interest on lease liabilities (note 31)	5,009	6,866	5,009	6,866
Fair value loss on equity investments (note 22 (a))	2,872	575	2,872	575
Loss on revaluation of land and building	22,700	-	22,700	-
	2,227,345	1,492,232	2,169,065	1,436,106
11 STAFF COSTS				
Salaries and wages	260,800	227,016	253,266	220,902
National Social Security Fund - defined contribution	446	530	446	530
Pension costs – defined contribution plan	7,379	8,393	7,379	8,393
Medical costs	21,802	21,884	21,802	21,884
Other staff costs	12,548	28,812	12,548	28,812
	302,975	286,635	295,441	280,521

Notes to the financial statements (continued)

	Group		Bank	
	2021 Sh'000	2020 Sh'000 Restated	2021 Sh'000	2020 Sh'000 Restated
12 TAXATION				
(a) Taxation charge				
Current taxation charge	20,531	16,449	-	-
Deferred taxation (credit)/charge (note 21)	9,260	77,129	14,648	76,759
Prior period adjustment (note 24 (a))	-	57,609	-	57,609
	29,791	151,187	14,648	134,368
(b) Reconciliation of tax charge/(credit) to the expected tax based on accounting loss				
Accounting profit before taxation	549,550	172,002	512,441	124,183
Tax at the applicable rate of 30% (2020:25%)	164,865	43,000	153,732	31,045
Tax effect of expenses not allowable for tax purposes	104,943	287,531	91,352	284,037
Tax effect of incomes not subject to tax	(240,017)	(236,953)	(230,436)	(238,323)
Prior period adjustment (note 24 (a))	-	57,609	-	57,609
	29,791	151,187	14,648	134,368
(c) Corporate taxation balance				
At beginning of the year	30,646	14,564	(109)	(109)
Charge for the year	20,531	16,449	-	-
Tax paid during the year	(45,176)	(368)	-	-
Tax payable/(receivable)	6,001	30,646	(109)	(109)
Analysed as follows:				
Corporate tax recoverable	(109)	(109)	(109)	(109)
Corporate tax payable	6,110	30,755	-	-

Notes to the financial statements (continued)

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	Group		Bank	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
Cash on hand	291,258	206,834	291,258	206,834
Balances with Central Bank of Kenya:				
- Cash ratio requirement	271,158	215,955	271,158	215,955
- Other balances	58,080	122,990	58,080	122,990
	620,496	545,779	620,496	545,779
Less ECL allowance (note 4)	(124)	(109)	(124)	(109)
At 31 December	620,372	545,670	620,372	545,670

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 2021 the cash ratio requirement in Kenya was 4.25% (2020 – 4.25%) of eligible deposits.

14 GOVERNMENT SECURITIES – Group and Bank

	2021 Sh'000	2020 Sh '000	2021 Sh'000	2020 Sh '000
(a) Treasury bonds				
At amortised cost – maturing after 5 years)	299,288	294,926	299,288	294,926
At Fair value through other comprehensive income (FVTOCI)- Note (b)	23,356,066	21,601,442	23,356,066	21,601,442
	23,655,354	21,896,368	23,655,354	21,896,368
Less ECL allowance (note 4)	(4,732)	(4,458)	(4,732)	(4,458)
	23,650,622	21,891,910	23,650,622	21,891,910

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

At start of year	21,601,442	202,144	21,601,442	202,144
Additions	1,858,852	21,300,752	1,858,852	21,300,752
Fair value gain	(104,228)	98,546	(104,228)	98,546
At end of year	23,356,066	21,601,442	23,356,066	21,601,442

Treasury bonds are debt securities issued by the Government of Kenya and are classified as amortised cost and FVTOCI based on the investment's business model. The weighted average effective interest rate on treasury bonds at 31 December 2021 was 11.60% (2020 – 11.90%).

Notes to the financial statements (continued)

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

	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
Balances due from banking institutions	116,908	69,142	116,908	69,142
Deposits due from banking institutions	204,437	76,327	204,437	76,327
	321,345	145,469	321,345	145,469
Less: ECL allowance (note 4)	(2,442)	(2,873)	(2,442)	(2,873)
	318,903	142,596	318,903	142,596

The above deposits mature within 3 months after year-end. The effective interest rate on deposits due from banking institutions at 31 December 2021 was 4.52% (2020: 5.67%) and nil for balances due to banking institutions.

16 LOANS AND ADVANCES TO CUSTOMERS – Group and Bank

	2021 Sh '000	2020 Sh '000 Restated
Loans and advances to customers	7,979,812	8,801,890
Loans and advances to staff	92,192	105,025
	8,072,004	8,906,915
Less: allowance for ECL (note 17 (a))	(3,639,464)	(3,318,813)
At 31 December	4,432,540	5,588,102

Non-performing loans and advances to customers

The aggregate amount of gross non-performing loans and advances as at 31 December 2021 was Sh 6,009,772,000 (2020 - Sh 6,786,738,000).

Notes to the financial statements (continued)

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

	2021 Sh '000	2020 Sh '000 Restated
Maturity of gross loans and advances		
Maturing:		
Within one year	2,374,931	1,482,836
One year to three years	1,182,230	1,288,823
Three years to five years	482,771	1,452,082
After five years	392,608	1,364,361
	4,432,540	5,588,102
Gross loans and advances to customers by type		
Overdrafts	519,24	662,709
Term loans	3,913,294	4,925,393
	4,432,540	5,588,102

The effective interest rate on loans and advances at 31 December 2021 was 13.67% (2020: 14.73%).

The related party transactions and balances are covered under note 35 and concentrations of gross advances to customers are covered under note 4.

Notes to the financial statements (continued)

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

(a) Loans and advances to customers Group & Bank

	Note	Stage 1 Sh'000	Stage 2 Sh'000	Stage 3 Sh'000	Total Sh'000
At 1 January 2020		187,065	43,210	3,213,228	3,443,503
Expected credit loss		(24,388)	(33,447)	(94,282)	(152,117)
Loans and advances derecognised		-	5,335	22,092	27,427
At 31 December 2020	4	162,677	15,098	3,141,038	3,318,813
At 1 January 2021		162,677	15,098	3,141,037	3,318,813
Expected credit loss		6,186	574	119,444	126,204
Loans and advances derecognised		(131,561)	127,889	198,119	194,447
At 31 December 2021	4	37,302	143,561	3,458,600	3,639,464

(b) Other financial assets-Group

	Note	Cash and balances with Central Bank of Kenya	Government securities	Deposits and balances due from banking institutions	Guarantees and indemniti es	Trade and other receivables	Total
At 1 January 2021;							
Performing		109	4,458	2,873	2,090	14,347	23,877
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	-
		109	4,458	2,873	2,090	14,347	23,877
ECL allowance;							
Performing		15	274	(410)	-	274	(121)
Under performing		-	-	-	-	1,003	1,003
Non-performing		-	-	-	41,971	5,733	47,704
		15	274	(410)	41,971	7,010	48,586
At 31 December 2021;							
Performing		124	4,732	2,873	-	21,357	29,086
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	44,061	-	44,061
		124	4,732	2,873	44,061	21,357	73,147

Notes to the financial statements (continued)

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

(b) Other financial assets-Group (Continued)

	Note	Cash and balances with Central Bank of Kenya	Government securities	Deposits and balances due from banking institutions	Guarantees and indemnities	Trade and other receivables	Total
At 1 January 2020;							
Performing		20	101	1,266	3,986	10,006	15,379
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	-
		20	101	1,266	3,986	10,006	15,379
ECL allowance;							
Performing		89	4,357	1,607	(1,896)	-	4,157
Under performing		-	-	-	-	-	-
Non-performing	4	-	-	-	-	4,341	4,341
		89	4,357	1,607	(1,896)	4,341	8,498
At 31 December 2020;							
Performing		109	4,458	2,873	2,090	14,347	23,877
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	-
		109	4,458	2,873	2,090	14,347	23,877

Notes to the financial statements (continued)

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

(c) Other financial assets-Bank

	Note	Cash and balances with Central Bank of Kenya Sh '000	Government securities Sh '000	Deposits and balances due from banking institutions Sh '000	Guarantees and indemnities Sh '000	Total Sh '000
At 1 January 2021;						
Performing		109	4,458	2,873	2,090	9,530
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		109	4,458	2,873	2,090	9,530
ECL allowance;						
Performing		15	274	(410)	-	(121)
Under performing		-	-	-	-	
Non-performing		-	-	-	41,971	41,971
		15	274	(410)	41,971	41,850
At 31 December 2021;						
Performing		124	4,732	2,873	-	7,729
Under performing		-	-	-	-	-
Non-performing		-	-	-	44,061	44,061
	4	124	4,732	2,873	44,061	51,790
At 1 January 2020;						
Performing		20	101	1,266	3,986	5,373
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		20	101	1,266	3,986	5,373
ECL allowance;						
Performing		89	4,357	1,607	(1,896)	4,157
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		89	4,357	1,607	(1,896)	4,157
At 31 December 2020;						
Performing		109	4,458	2,873	2,090	9,530
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		109	4,458	2,873	2,090	9,530

Notes to the financial statements (continued)

18 OTHER ASSETS

	Group		Bank	
	2021 Sh '000	2020 Sh '000	2021 Sh '000	2020 Sh '000
Other receivables	1,108,526	1,132,579	823,349	942,049
Prepayments and deposits	149,917	144,568	149,917	144,568
Legal deposits	2,914	-	2,914	-
	1,261,357	1,277,147	976,180	1,086,647
ECL allowance	(21,357)	(14,347)	-	-
	1,240,000	1,262,800	976,180	1,086,647

19 PROPERTY AND EQUIPMENT – Group

	Land & buildings	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
COST						
At 1 January 2020	-	224,846	645,081	24,898	5,522	900,347
Additions	-	2,363	23,504	-	1,262	27,129
Reclassified from investment property (note 24)	788,000	-	-	-	-	788,000
At 31 December 2020	788,000	227,209	668,585	24,898	6,784	1,715,476
At 1 January 2021	788,000	227,209	668,585	24,898	6,784	1,715,476
Additions	-	623	23,837	-	-	24,460
Disposal	-	(18,260)	(139,159)	-	-	(157,419)
Fair Value Adjustment	(22,700)	-	-	-	-	(22,700)
At 31 December 2021	765,300	209,572	553,263	24,898	6,784	1,559,817

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Notes to the financial statements (continued)

19 PROPERTY AND EQUIPMENT – Group (Continued)

	Land & buildings	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION						
At 1 January 2020	75,430	243,511	2,403	-	321,344	75,430
Charge for the year	25,180	65,782	5,383	-	96,345	25,180
At 31 December 2020	-	100,610	309,293	7,786	-	417,689
At 1 January 2021	-	100,610	309,293	7,786	-	417,689
Charge for the year	-	25,229	61,374	4,293	-	90,896
Eliminated on disposal	-	(18,147)	(119,385)	-	-	(137,532)
At 31 December 2021	-	107,692	251,282	12,079	-	371,053
NET BOOK VALUE						
At 31 December 2021	765,300	101,880	301,981	12,819	6,784	1,188,764
At 31 December 2020	788,000	126,599	359,292	17,112	6,784	1,297,787

19 PROPERTY AND EQUIPMENT – Bank

COST						
At 1 January 2020	-	251,637	289,328	8,097	5,522	554,584
Additions	-	2,363	3,852	-	1,262	7,477
Transfer from investment property	788,000	-	-	-	-	788,000
At 31 December 2020	788,000	254,000	293,180	8,097	6,784	1,350,061
At 1 January 2021	788,000	254,000	293,180	8,097	6,784	1,350,061
Additions	-	623	23,837	-	-	24,460
Disposal	-	(18,260)	(135,617)	-	-	(153,877)
Fair value adjustment	(22,700)	-	-	-	-	(22,700)
At 31 December 2021	765,300	236,363	181,400	8,097	6,784	1,197,944

Notes to the financial statements (continued)

19 PROPERTY AND EQUIPMENT – Bank (Continued)

	Land & building	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION						
At 1 January 2020	-	75,430	170,645	844	-	246,919
Charge for the year	-	25,180	30,070	2,024	-	57,274
At 31 December 2020	-	100,610	200,715	2,868	-	304,193
At 1 January 2021	-	100,610	200,715	2,868	-	304,193
Charge for the year	-	25,229	25,662	934	-	51,825
Eliminated on disposal	-	(18,147)	(118,677)	-	-	(136,824)
At 31 December 2021	-	107,692	107,700	3,802	-	219,194
NET BOOK VALUE						
At 31 December 2021	765,300	128,671	73,700	4,295	6,784	978,750
At 31 December 2020	788,000	153,390	92,465	5,229	6,784	1,045,868

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

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

The land and buildings was last revalued as at 31 December 2021 by Morgan Wright Limited, independent valuers on the basis of open market value for existing use for purposes of establishing the transfer cost from investment property.

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

The title of the property is freehold and is registered in the name of the Bank as absolute proprietors. It is encumbered through a legal charge to the Co-operative Bank of Kenya securing a mortgage facility as disclosed in note 28.

Notes to the financial statements (continued)

20 INTANGIBLE ASSETS – Group and Bank

	Sh '000
COST	
At 1 January 2020	415,018
At 31 December 2020	415,018
At 1 January 2021	415,018
At 31 December 2021	415,018
AMORTISATION	
At 1 January 2020	326,708
Charge for the year	47,451
At 31 December 2020	374,159
At 1 January 2021	374,159
Charge for the year	10,893
At 31 December 2021	385,052
NET BOOK VALUE	
At 31 December 2021	29,966
At 31 December 2020	40,859

The intangible assets relate to computer software.

Notes to the financial statements (continued)

21 DEFERRED TAX ASSET

	Group		Bank	
	2021 Sh'000	2020 Sh'000 Restated	2021 Sh'000	2020 Sh'000 Restated
The net deferred tax asset is attributable to the following items:				
Accelerated capital allowances	101,167	98,577	102,128	87,118
Unrealized exchange losses	-	(163)	-	-
General provisions	(84,538)	87,534	(79,696)	90,564
Other provisions and temporary differences	(1,678)	(56,697)	(10,360)	(56,697)
Tax losses	(237,578)	(364,432)	(237,578)	(364,432)
Revaluation surplus	-	3,293	-	3,293
Deferred tax asset-net	(222,627)	(231,888)	(225,506)	(240,154)
Movement in deferred tax asset is as follows:				
At 1 January	(231,888)	(366,626)	(240,154)	(374,522)
Charge to profit or loss (note 12(a))	9,261	77,129	14,648	76,759
Prior year adjustment (note 24)	-	57,609	-	57,609
At 31 December	(222,627)	(231,888)	(225,506)	(240,154)

As at 31 December 2021, the Bank had accumulated tax losses amounting to Sh 791,926,667 Sh (2020 – Sh 1,214,773,333) and available to be offset against future taxable profit.

22 EQUITY INVESTMENTS - Group and Bank

	2021 Sh'000	2020 Sh'000
(a) Investment in quoted company – At fair value through profit and loss (FVTPL)	13,215	16,087
Uchumi Supermarkets Limited		
At 1 January	16,087	16,662
Fair value loss (note 9)	(2,872)	(575)
At 31 December	13,215	16,087

The investment in Uchumi Supermarkets Limited is held at fair value through profit or loss. The share price closed at Sh 0.23 as at 31 December 2021 (2020: Sh 0.28) and a revaluation loss of Sh 2,872,000 (2020: Sh 525,000) was recognized in the financial statements under other income in note 10.

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	2021 Sh'000	2020 Sh'000
Kingdom Bancassurance Intermediary Limited (Formerly Jamii Bora Insurance Agency Limited)	100	100%	139	139
Kingdom Leasing Limited (Formerly 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.

Kingdom Bancassurance Intermediary Limited (Formerly Jamii Bora Insurance Agency Limited) was incorporated in 30 May 2015.The principal activity of the Bank is insurance agency business.

Kingdom Leasing Limited (Formerly Jamii Bora Leasing Limited) was incorporated in 30 September 2016. The principal activity of the Bank is leasing business.

23 INTANGIBLE ASSETS - CUSTOMER RELATIONSHIPS – Group and Bank

	2021 Sh '000	2020 Sh '000
Customer relationships	-	198,433
Amortisation of intangible asset	-	(198,433)
Net carrying value	-	-

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 2021, the Bank analysed and reassessed the customer relationships in accordance with International Accounting Standard No. 38 (Intangible Assets) on review of useful lives of intangible assets and determined that the customer relationships were deemed to be fully amortised. The intangible assets were therefore fully amortised as 31 December 2020 as per the Bank's accounting policy.

Notes to the financial statements (continued)

24 PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to correction of treatment of the following items:

- Amortization of interest expense and deferred benefit on concessional funding (note 30)
- Statutory credit risk reserve

The impact of the above adjustments as well as the tax consequences on the statement of profit or loss and other comprehensive income and the statement of financial position for the respective periods is detailed below:

a) Restatement of audited statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Group			Bank		
	As previously reported Shs '000	Prior year adjustment Shs '000	As restated Shs '000	As previously reported Shs '000	Prior year adjustment Shs '000	As restated Shs '000
Amortization of interest and deferred benefit on concessional funding	201,513	(201,513)	-	201,513	(201,513)	-
Net expected credit loss on financial assets	(306,222)	449,841	143,619	(301,881)	449,841	147,960
Income tax expense	(93,578)	(57,609)	(151,187)	(76,759)	(57,609)	(134,368)
(Loss)/profit for the year	(71,358)	190,719	119,361	(102,358)	190,719	88,361

b) Restatement of audited statement of financial position as at 31 December 2020

	Group			Bank		
	As previously reported Shs '000	Prior year adjustment Shs '000	As restated Shs '000	As previously reported Shs '000	Prior year adjustment Shs '000	As restated Shs '000
ASSETS						
Loans to customers	5,138,261	449,841	5,588,102	5,138,261	449,841	5,588,102
Deferred tax asset	289,497	(57,609)	231,888	297,763	(57,609)	240,154
LIABILITIES						
Long term loan	20,758,487	201,513	20,960,000	20,758,487	201,513	20,960,000

Notes to the financial statements (continued)

24 PRIOR YEAR ADJUSTMENTS (Continued)

b) Restatement of audited statement of financial position as at 31 December 2020 (Continued)

	Group As previously reported Shs '000	Bank Prior year adjustment Shs '000	As restated Shs '000	As previously reported Shs '000	Prior year adjustment Shs '000	As restated Shs '000
EQUITY						
Revenue deficit	(3,672,433)	(259,122)	(3,931,555)	(3,770,485)	(259,122)	(4,029,607)
Statutory credit risk reserve	-	449,841	449,841	-	449,841	449,841
	=======	=======	========	========	=======	=======

25 RIGHT-OF-USE ASSETS – Group & Bank

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

	2021 Building Sh'000	2020 Building Sh'000
COST		
At 1 January	140,755	213,816
Additions	-	4,137
Terminations	-	(77,198)
At 31 December	140,755	140,755
DEPRECIATION		
At 1 January	58,275	33,676
Charge for the year	24,791	24,599
At 31 December	83,066	58,275
NET BOOK VALUE		
At 31 December	57,689	82,480
	=======	=======

Notes to the financial statements (continued)

25 RIGHT-OF-USE ASSETS – Group & Bank (Continued)

Amounts recognized in profit or loss:

	2021 Building Sh'000	2020 Building Sh'000
Depreciation expense on right-of-use assets	24,791	24,599
Interest expense on lease liabilities (note 31)	5,009	6,866
Expense relating to short term leases	5,672	741
	35,472	32,206

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 38.4 million (2020: Sh 29 million).There were no restrictions or covenants imposed by lessors

	Group		Bank	
	2021 Sh '000	2020 Sh '000	2021 Sh '000	2020 Sh '000
26 CUSTOMER DEPOSITS - Group and Bank				
Current and demand accounts	2,112,539	1,877,284	2,112,539	1,984,584
Savings accounts	289,072	339,417	289,072	339,417
Fixed deposit accounts	3,873,912	2,757,288	3,978,582	2,757,288
	6,275,523	4,973,989	6,380,193	5,081,289
Maturity analysis of customer deposits				
Repayable:				
On demand	2,130,329	1,562,013	2,130,329	1,669,313
Within 90 days	4,145,194	3,411,976	4,249,864	3,411,976
	6,275,523	4,973,989	6,380,193	5,081,289

The effective interest rate on interest bearing customer deposits at 31 December 2021 was 9% (2020 -10%). The related party transactions and balances are covered under note 34 and concentrations of customer deposits is covered under note 4 (a).

	2021 Sh '000	2020 Sh '000
27 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
Group and Bank		
Balances due to banking institutions	1,734,857	2,156,981

The above balances are denominated in local currency and are due on demand and are non-interest bearing.

Notes to the financial statements (continued)

		2021 Sh '000	2020 Sh '000
28	MEDIUM TERM LOANS – Group and Bank		
	ResponsAbility*	75,036	155,995
	Shelter Afrique**	-	3,247
	Housing Finance Group***	-	218,020
	Co-operative Bank of Kenya Limited	178,960	-
	Progression Africa****	-	470,454
	At 31 December	253,996	847,716
	The movement in borrowings is as follows:		
	At 1 January	847,716	1,187,883
	Mortgage take-over- Co-operative Bank of Kenya Limited	181,578	-
		1,029,294	1,187,883
	Loan repaid- Housing Finance Group	(218,020)	(49,465)
	Loan repaid- Co-operative Bank of Kenya Limited	(2,619)	-
	Loan repaid- Shelter Afrique	(3,247)	(54,407)
	Loan repaid – responsibility	(80,962)	(95,010)
	Loan repaid- Progression Africa	(470,450)	(267,274)
		(775,298)	(466,156)
		253,996	721,727
	Accrued interest	-	125,989
	At 31 December	253,996	847,716
	On demand or within one year	75,036	629,696
	Between 2 to 3 years	-	-
	Over 3years	178,960	218,020

Notes to the financial statements (continued)

28 MEDIUM TERM LOAN – Group and Bank (Continued)

* The ResponsAbility loan is denominated in United States American Dollars (USD). Its effective interest rate is 5.5% per annum. The loan will mature in November 2022

** 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 matured and was fully repaid during the year.

*** The Housing Finance Group loan is denominated in Kenya Shillings. Its effective interest rate is 14% per annum. The loan was taken over by the Co-operative Bank of Kenya Limited during the year. It has an effective interest rate of 13% and a tenor of 4 years 4 months (52 months). It is secured via legal charge over LR No: 1/859 as disclosed in note 19.

**** The Progression Africa loan is denominated in Kenya Shillings and United States American Dollars (USD) on fifty percent basis. Its effective interest rate is 9.5% and 3.5% per annum for the Kenya Shillings and United States American Dollars loan respectively. The loan matured and was fully repaid during the year.

29 LONG TERM LOAN – Group and Bank

	Fair value Sh '000	Deferred benefit Sh '000	Total Sh '000
At 1 January 2020	-	-	-
On initial recognition	7,089,091	13,870,909	20,960,000
Interest expense	260,851	-	260,851
Amortisation of deferred benefit	-	(462,364)	(462,364)
At 31 December 2020-as previously reported	7,349,942	13,408,545	20,758,487
Prior year adjustment (note 24 (a))	2,861,578	(2,660,065)	201,513
Interest expense-recomputed	395,353	-	395,353
Amortisation of deferred benefit-recomputed	-	(395,353)	(395,353)
At 31 December 2020-restated (note 24 (a))	10,211,520	10,748,480	20,960,000
At 1 January 2021	10,211,520	10,748,480	20,960,000
Interest expense	1,280,294	-	1,280,294
Amortisation of deferred benefit	-	(1,280,294)	(1,280,294)
At 31 December 2021	11,491,814	9,468,186	20,960,000

Notes to the financial statements (continued)

29 LONG TERM LOAN – Group and Bank (Continued)

The above amount relates to liquidity support financing received from the Central Bank of Kenya (CBK) of Sh 20,960,000,000 in the year 2020 in exercise of its statutory mandate as regulator towards strengthening the liquidity position in a bid to turnaround the institution and stabilize the banking sector.

The facility has an effective interest rate of zero. It is repayable in seven (7) years from commencement of repayment, which is expected within 36 months from the date of lending. Management has assumed an effective interest rate of 11.45% (2020: 11.45%) in arriving at the fair value and deferred benefit.

	Group		Bank	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
30 OTHER LIABILITIES				
Bankers cheque liability	6,013	2,865	6,013	2,865
Sundry payables	470,414	449,401	395,659	374,812
	476,427	452,266	401,672	377,677

31 LEASE LIABILITIES

	Group & Bank	
	2021 Sh'000	2020 Sh'000
The movement in the lease liabilities is as follows:		
At 1 January-as restated	89,868	190,628
Payment of lease liabilities	(31,237)	(29,379)
Interest on lease liabilities	5,009	6,866
Additions	-	4,137
Terminations	-	(82,384)
At 31 December	63,640	89,868
Amounts due for settlement within 12 months	44,611	42,653
Amounts due for settlement after 12 months	19,029	47,215
	63,640	89,868

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

Notes to the financial statements (continued)

	2021 Sh '000	2020 Sh'000
32 SHARE CAPITAL – Group and Bank		
Authorised:		
224,153,541 Class A ordinary shares of Sh 1 each	224,154	224,154
46,200,000 Class B ordinary shares of Sh 66 each	3,049,200	3,049,200
	3,273,354	3,273,354
Issued and fully paid:		
224,153,541 Class A ordinary shares of Sh 1 each	224,154	224,154
24,905,949 Class B ordinary shares of Sh 66 each	1,643,793	1,643,793
	1,867,947	1,867,947

On 2 June 2021, Kingdom Bank Limited received a legally binding offer, from The Co-operative Bank of Kenya Limited (Co-operative Bank) for the investment of Sh 1,000,000,000 into the bank as a subscription for a new class of 224,153,541 ordinary shares at Sh 4.46 per share (Sh 1.00 Par)

These new shares were created and designated to rank pari-passu with the existing ordinary shares and gave Co-operative Bank an equivalent of 90% controlling stake in the bank. The offer was approved by the board of Kingdom Bank Limited and subsequently by shareholders at an extraordinary general meeting on 1 July 2021. The business transaction was concluded on 18 September 2021 with the injection of Sh 1,000,000,000 as the subscription price.

	No. of shares	**Share capital Sh'000**	**Share premium Sh'000**
Balance at 31 December 2021	249,059,490	1,867,947	3,087,449
Balance at 31 December 2020	249,059,490	1,867,947	3,087,449

Notes to the financial statements (continued)

	Group		Bank	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
33 NOTES TO THE STATEMENT OF CASH FLOWS - Group and Bank				
(a) Reconciliation of loss before taxation to cash generated from/(used in) operations				
Profit before taxation	549,550	172,002	512,441	124,183
Adjustment:				
Depreciation of property and equipment	90,896	96,345	51,825	57,274
Amortisation of intangible assets	10,893	47,451	10,893	47,451
Depreciation expense on right-of-use assets	24,791	24,599	24,791	24,599
Loss on disposal of property and equipment	19,888	-	17,053	-
Interest on borrowings	-	125,989	-	125,989
Fair value loss on equity investments	2,872	575	2,872	575
Amortisation of intangible asset-customer relationships	-	198,433	-	198,433
Fair value loss on land and building	22,700	-	22,700	-
Interest on lease liability	5,009	6,866	5,009	6,866
Movement on terminated leases	-	(5,185)	-	(5,185)
	726,599	667,075	647,584	580,185
Working capital changes;				
Decrease in loans and advances to customers	1,155,562	121,461	1,155,562	121,461
Decrease/(increase) in other assets	22,800	(715,181)	110,467	(650,951)
Increase in customer deposits	1,301,534	261,247	1,298,904	286,566
Increase/(decrease)/ in other liabilities	24,161	(216,715)	23,995	(214,289)
Net movement in related party balances	10	11	(51,022)	(25,093)
(Decrease)/increase in cash ratio requirement	(55,204)	35,856	(55,204)	35,856
Net movement in Government securities	(1,862,940)	(21,286,353)	(1,862,940)	(21,286,353)
Net cash generated/(used in) from operations	1,312,522	(21,132,599)	1,267,346	(21,152,618)
(b) Analysis of the balances of cash and cash equivalents				
Cash on hand	291,366	206,834	291,366	206,834
Balances with the Central Bank of Kenya	57,956	122,990	57,956	122,990
Deposits and balances due from banking institutions	318,903	142,596	318,903	142,596
Deposits and balances due to banking institutions	(1,734,857)	(2,156,981)	(1,734,857)	(2,156,981)
	(1,066,632)	(1,684,561)	(1,066,632)	(1,684,561)

Notes to the financial statements (continued)

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

	Group		Bank	
	2021 Sh'000	2020 Sh'000	2021 Sh'000	2020 Sh'000
(c) Analysis of increase in Government Securities				
Movement in Government Securities				
Non-cash flow items – revaluation of FVOCI:				
Treasury bonds (note 14(b))	(104,228)	98,546	(104,228)	98,546
Included in the cash flow statement	(104,228)	98,546	(104,228)	98,546

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.

34 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.

35 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.

Notes to the financial statements (continued)

35 RELATED PARTY TRANSACTIONS (Continued)

	Group 2021 Sh '000	Group 2020 Sh '000	Bank 2021 Sh '000	Bank 2020 Sh '000
(a) Loans and advances				
At 1 January	-	-	-	-
Additions	-	-	-	-
Interest charged	-	-	-	-
Repayments	-	-	-	-
At 31 December	-	-	-	-
Staff loans and advances	92,192	105,025	92,192	105,025
(b) Due to related company				
(i) Due to Jamii Bora Africa Limited				
At 1 January	134	123	134	123
Additions	10	11	10	11
Repayments		-		-
At 31 December	144	134	144	134
(ii) Due to The Co-operative Bank of Kenya Limited				
At 1 January	-	-	-	-
Additions (note 28)	183,000	-	183,000	-
Repayments	(4,040)	-	(4,040)	-
At 31 December	178,960	-	178,960	-
(c) Due from related companies				
i) Kingdom Leasing Limited (Formerly Jamii Bora Leasing Limited)				
At 1 January	-	-	294,740	273,815
Additions	-	-	41,438	20,925
At 31 December	-	-	336,178	294,740

Notes to the financial statements (continued)

35 RELATED PARTY TRANSACTIONS (Continued)

	Group 2021 Sh '000	Group 2020 Sh '000	Bank 2021 Sh '000	Bank 2020 Sh '000
ii) Kingdom Bancassurance Intermediary Limited (Formerly Jamii Bora Insurance Agency Limited)				
At 1 January	-	-	27,831	23,652
Additions	-	-	9,594	4,179
At 31 December	-	-	37,425	27,831
Total		-	373,603	322,571
iii) The Co-operative Bank of Kenya Limited-Bank balances				
At 1 January	17,307	-	17,307	-
Deposits	1,307,949	43,369	1,307,949	43,369
Withdrawals	(1,278,628)	(26,062)	(1,278,628)	(26,062)
	46,628	17,307	46,628	17,307

(d) Deposits – Group and Bank

	Directors Sh'000	Companies associated to directors Sh'000	Total Sh'000
At 1 January 2020	-	-	-
Deposits	-	-	-
Interest paid	-	-	-
Withdrawals	-	-	-
Balance at 31 December 2020	-	-	-
At 1 January 2021	-	-	-
Deposits	-	-	-
Interest paid	-	-	-
Withdrawals	-	-	-
Balance at 31 December 2021	-	-	-

Notes to the financial statements (continued)

35 RELATED PARTY TRANSACTIONS (Continued)

(e) Key management compensation – Group and Bank

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

	2021 Sh '000	2020 Sh '000
Salaries and other benefits	54,900	98,719
	======	======
Directors' remuneration		
Fees for services as directors	6,059	4,985
Other emoluments (included in key management compensation above)	1,480	2,414
	7,539	7,399
	======	======

36 CONTINGENCIES INCLUDING OFF BALANCE SHEET ITEMS – Group and Bank

	2021 Sh '000	2020 Sh '000
(a) Collaterals and guarantees	561,266	931,961
	=======	======
(b) Litigation against the Bank	350,520	647,746
	=======	======

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.

37 ASSETS PLEDGED AS SECURITIES

As at 31 December 2021 and 31 December 2020, 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.

38 CAPITAL COMMITMENTS – Group and Bank

The Bank had no authorised capital commitments as at 31 December 2021 (2020 - nil).

39 COUNTRY OF INCORPORATION

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

Notes to the financial statements (continued)

40 CURRENCY

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

41 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.

(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.

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