
# INTEGRATED
## REPORT & FINANCIAL
# STATEMENTS

Family Bank
With you, for life

FAMILY BANK LIMITED

# INTEGRATED REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

# ABOUT THE INTEGRATED REPORT & FINANCIAL STATEMENTS 2020

Family Bank Limited is pleased to present its annual Integrated Report, which covers the period from 1 January 2020 to 31 December 2020. This report contains comprehensive information of our financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence our strategic initiatives. In this report, Family Bank demonstrates how we create and sustain value through our business.

This report is compiled and presented in accordance with the Corporate Governance Guidelines and Codes of Conduct prescribed by the Central Bank of Kenya, the Corporate Governance Guidelines of the Capital Markets Authority (CMA), the Continuing Listing Obligations of the CMA as required by the Nairobi Securities Exchange and the Global Reporting Initiative Standards (GRI).

Our Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015. We received external assurance from our auditor, PricewaterhouseCoopers LLP on the fair presentation of these annual financial statements. See the Independent Auditor’s Report on pages 48 to 51

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# Family Bank at a Glance

## Our Vision
To be the financial institution that leads in the positive transformation of people's lives in Africa.

## Our Values

**Winning Together**
Within ourselves and with our customers, we work together and we win together.

**Self Belief**
In ourselves and our customers' ability to change the world.

**Transparency**
Our customers will trust and reward us for it.

**Humility**
It's not about us, it's about our customers.

## Our Mission
We positively transform people's lives by providing quality financial services through innovative, efficient and reputable practice.

## Our Purpose
To enable people create and sustain wealth through access to flexible, affordable financial services.

## Our Tagline
Our positioning is best captured in our tagline and expresses the promise to our customers in the simplest way.

***"With you, for life"***

# SUBSIDIARY

## FAMILY BANK INSURANCE AGENCY LIMITED

Family Bank Insurance Agency Limited (FBIA), a fully-fledged subsidiary of Family Bank Limited, was established in 2008. The Insurance Agency is licensed by the Insurance Regulatory Authority (IRA) since May 2010. In the ten years since its establishment, the Agency has recorded an impressive growth year-on-year, attaining a Gross Written Premium (GWP) of KES 930 Million for the year ended 31 December 2020, mainly from its General, Life and Medical insurance businesses. This growth is attributed to improved customer experience, technological innovations in underwriting and distribution and new products.

FBIA is a leading provider of risk management solutions. It has more than 50 members of staff, adequately experienced and qualified to handle customers insurance and risk management needs with representation in over 90 branches across the country.

The Agency's main objective is to address the insurance needs of Kenyans across the wide economic strata. Through partnerships with reputable insurance companies in the industry, FBIA offers a full bouquet of innovative insurance products and services using the Bancassurance model. Bancassurance is the provision of insurance and banking products and services, through a common distribution channel and to the same client base.

The Agency also facilitates access to professional insurance advisory services and also avails convenient and accessible insurance policies and claims service by our customers through the wide branch outreach and alternative banking channels.

OUR SERVICES

- Advisory Insurance services on General, Marine, Agriculture and Medical insurance policies
- Life Assurance products for groups and individuals
- Group and Staff medical scheme administration services
- Claims Management
- Insurance Premium Financing

All these services and products are offered through an integrated and robust Bancassurance IT system to ensure that insurance business is well served and all branches are well connected to enhance efficiency of service delivery across the country.

## THE COMPANIES ACT 2015

# FAMILY BANK LIMITED

# ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 14th Annual General Meeting ('AGM') of Family Bank Limited will be held via electronic communication on Tuesday 29th June 2021, at 9:00 a.m. to conduct the following business:

**Ordinary Business**:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if thought fit, adopt the Integrated Report, the Audited Financial Statements for the year ended 31st December 2020, together with the Chairman's, Directors' and Auditor's reports thereon.
4. To note that the Board does not declare a dividend for the year ended 31st December 2020.
5. Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:
   - 5.1. Dr. Ruth Waweru, who has served in Board diligently for the last 10 years, retires by rotation and does not offer herself for re-election.
   - 5.2. Mr. T.K. Muya having attained the age of seventy years retires from office by rotation and, in terms of Clause 2.5 of the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, offers himself for re-election as a director of the Company.
   - 5.3. Ms. Mary Mburu, having been appointed to fill a casual vacancy, retires by rotation and being eligible, offers herself for re-election as a director of the Company.
6. To receive, consider and if thought fit approve the Directors' remuneration for the year ending 31st December 2020.
7. To re-appoint PricewaterhouseCoopers LLP as auditor of the Company in accordance with Sections 721 and 724 of the Companies Act 2015, and to authorise the directors to fix their remuneration.
8. To approve the increase in Authorized Share Capital from KES 1.5 billion divided into 1.5 billion ordinary shares of KES 1.00 each to KES 2.0 billion divided into 2 billion ordinary shares of KES 1.00 each.

**Special Resolution**

9. To consider, and if deemed fit, pass the following resolution as a Special Resolution:
   - 9.1. To approve the issue of bonus shares at the rate of 1 ordinary share of KES 1.00 each for every 3 ordinary shares held.
10. To consider any other business for which due notice has been received.

Eric K. Murai

**Company Secretary**

Nairobi

31 May 2021

**NOTES**

1. In view of the ongoing Coronavirus 2019 (COVID-19) pandemic and the related Public Health Regulations and directives passed by the Government of Kenya precluding inter alia public gatherings, it is impracticable, for Family Bank Limited to hold a physical Annual General Meeting (AGM) and has thus called for the virtual AGM as provided for under Article 57A of the Company's Articles of Association.
2. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:
   a) Dialling the USSD code *483*251# for Safaricom, Airtel and Telkom mobile telephone networks and following the various prompts regarding the registration; or
   b) Send an email request to be registered to familybankagm@image.co.ke
   c) Shareholders with email addresses will receive a registration link via email through which they can use to register

   In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 709 170 000 from 9:00 a.m. to 5:00 p.m. from Monday to Friday.
3. Registration for the AGM opens on 7th June 2021 at 9:00 am and will close on Saturday 26th June 2021 at 11.00 am. Shareholders will not be able to register after 26th June 2021 at 11.00 am.
4. In accordance with Section 283 (2) of the Companies Act, the following documents may be viewed on the Company's website: www.familybank.co.ke (i) a copy of this Notice and the proxy form; (ii.) the Company's audited financial statements for the year 2020.

   The reports may also be accessed upon request by dialing the USSD code above and selecting the Reports option. The reports and agenda can also be accessed on the livestream link.

5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   (i) sending their written questions by email to familybankagm@image.co.ke; or
   (ii) submitting questions by dialling the USSD Code above and following the prompts: or
   (iii) to the extent possible, physically delivering their written questions with a return physical address or email address to the registered office of the Company at 8th Floor, Family Bank Towers, Muindi Mbingu Street, or to Image Registrars Limited offices at 5th floor, Absa Towers (formerly Barclays Plaza), Loita Street; or sending their written questions with a return physical address or email address by registered post to the Company's address at P.O. Box 74145-00200 Nairobi. Shareholders must provide their full details (full names, ID/Passport Number/Share Account Number) when submitting their questions and clarifications.

   All questions and clarification must reach the Company on or before 27th June 2021 at 11:00 am. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the general meeting. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the general meeting.

6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is attached to this Notice and is available on the Company's website via this link: www.familybank.co.ke/company-profile/investor-relations. Physical copies of the proxy form are also available at the following address: Image Registrars Limited offices, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to info@image.co.ke or delivered to Image Registrars Limited, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 27th June 2021 at 11.00a.m. Any person appointed as a proxy should submit his/her mobile telephone number to the Company no later than 27th June 2021 at 11. 00a.m at 11.00 am. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 28th June 2021 at 11. 00a.m to allow time to address any issues.

7. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hours' time and providing a link to the live stream.

8. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD prompts.

9. Results of the AGM shall be published on the Company website within 24 hours following conclusion of the AGM.

10. Shareholders are encouraged to continuously monitor the Company's website: **www.familybank.co.ke** for updates relating to the AGM due to the continuous evolving situation with COVID-19 and the Government directives being subject to change. We appreciate the understanding of our shareholders as we navigate the changing business conditions posed by COVID -19.

# CORPORATE INFORMATION

## DIRECTORS

| | |
|---|---|
| Non-Executive | Dr. Wilfred D. Kiboro - Chairman<br>Dr. Ruth Waweru - Vice Chairperson<br>Mr. Titus K. Muya<br>Mr. Lazarus Muema<br>Mr. Lerionka S. Tiampati<br>Mr. Francis G. Mungai<br>Ms. Mary N. Mburu - Appointed on 8 October 2020 |
| Executive | Ms. Rebecca Mbithi - Managing Director & Chief Executive Officer |

## COMPANY SECRETARY

Eric K. Murai
Certified Secretary
8th Floor, Family Bank Towers,
Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi
Tel: 254-703 095 000/ 703 095 445
Fax: 254-2-318174
Email: info@familybank.co.ke
Website: www.familybank.co.ke

## REGISTERED OFFICE

Family Bank Limited
8th Floor, Family Bank Towers, Muindi Mbingu Street
P.O. Box 74145- 00200, Nairobi
Tel: 254-703 095 000/ 703 095 445
Fax: 254-2-318174
Email: info@familybank.co.ke
Website: www.familybank.co.ke

## AUDITOR

PricewaterhouseCoopers LLP
Certified Public Accountants
PWC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963-00100
Nairobi, Kenya

## LEGAL ADVISERS

Mboya Wangong'u & Waiyaki Advocates
Lex Chamber, Maji Mazuri Road
Off James Gichuru Road
Nairobi

| | |
|---|---|
| CORRESPONDENT BANKS | Deutsche Bank AG London<br>6 Bishopsgate<br>London<br>EC2P 2AT<br>United Kingdom |
| | DZ Bank AG<br>60265 Frankfurt am Main |
| | Deutsche Bank Trust Company Americas<br>P O Box 318, Church Street Station<br>New York, New York 10008 – 0318 |

## BOARD COMMITTEES

| | |
|---|---|
| Credit Committee | Mr. Francis Mungai - Chairman<br>Mr. Titus K. Muya<br>Dr. Wilfred D. Kiboro<br>Ms. Rebecca Mbithi |
| Audit Committee | Mr. Lazarus Muema - Chairman<br>Dr. Ruth Waweru<br>Mr. Lerionka S. Tiampati |
| Risk Management and Compliance Committee | Mr. Lazarus Muema - Chairman<br>Dr. Ruth Waweru<br>Mr. Lerionka S. Tiampati |
| Human Resource Committee | Dr. Ruth Waweru - Chairperson<br>Mr. Titus K. Muya<br>Dr. Wilfred D. Kiboro<br>Mr. Francis Mungai<br>Ms. Rebecca Mbithi |
| Strategy Committee | Dr. Ruth Waweru - Chairperson<br>Mr. Titus K. Muya<br>Mr. Lerionka S. Tiampati<br>Dr. Wilfred D. Kiboro<br>Ms. Rebecca Mbithi |
| Nomination Committee | Dr. Wilfred D Kiboro - Chairperson<br>Dr. Ruth Waweru<br>Mr. Titus K. Muya |


BECAUSE
YOU CAN
ALWAYS
BANK ON
FAMILY
#FuzuNaFamily
Family Bank
With you, for life
Family Bank is regulated by the Central Bank of Kenya

# BOARD OF DIRECTORS

**Dr. Wilfred D. Kiboro,EBS**
Board Chairman

Dr. Kiboro holds a Bachelor of Science, Civil Engineering from the University of Nairobi and he began his engineering career with Shell and Esso. He was later appointed as Managing Director of Rank Xerox, and he is the former Chief Executive Officer of the Nation Media Group, where he still serves as Chairman.
He is the Chancellor of Riara University, a Trustee of the Rhino Ark, and the Chairman of Wilfay Investment Limited and Africa Digital Network Limited and Chairman of Green Blue Africa Foundation.

Dr. Kiboro has received various accolades including being a Member of the International Who's Who of Professionals, and he is a past Chairman of several organisations, including the Media Owners Association, the East African Business Council, the International Press Institute Board, the Federation of Kenyan Employers, and the Standard Chartered Bank, Kenya.

He has also served on the Boards of the Kenya Association of Manufacturers, the National Environmental Management Authority (NEMA) and East African Breweries Limited among others.

**Dr. Ruth Waweru**
Board, Vice Chair-Person

Dr. Ruth Waweru holds a Bachelor of Education from Kenyatta University, an MBA from the University of Nairobi and a Doctorate Degree in Business Administration from Nelson Mandela University in South Africa.

She is an entrepreneur, management consultant and a corporate leader. Dr. Ruth, through Liaison Consulting Limited, has provided consultancy services to governments, companies and development agencies in Africa for over 20 years. Dr. Ruth has extensive experience in Corporate Governance. At the international level, she is on the Supervisory board of Oikocredit International based in the Netherlands that has presence in several countries.

She is currently the Supervisory Board Investment committee's chairperson and previously held various positions for 11 years.
She is on the board of Partners Worldwide based in US Michigan State with a presence in 27 countries. In Kenya, Dr. Ruth is on the board of Kenya Orient Life Assurance LTD, Partners Worldwide (Kenya) and Family Bank Insurance Agency. She is the founder Director of Brookhurst International School. Dr. Ruth has been involved in business-related academic programs with Nelson Mandela University, Riara University and the University of Nairobi and is a visiting Professor and resource Faculty member in the University of Kigali-Rwanda.

**Mr. Titus K. Muya, EBS**
Non-Executive Director

TK, as he is popularly known, founded Family Bank in 1984, and he served as the institution's Chief Executive Officer from 1984 to June 2006, after which he chaired the Banks Board of Directors until December 2012. He is one of Kenya's leading visionary entrepreneurs associated with various companies, including Kenya Orient Insurance Limited, Daykio Plantations Limited and Alpha Africa Asset Managers Limited, on whose Boards he sits or is represented in different capacities.

In recognition of his entrepreneurship and, more specifically, his contribution to the banking industry, TK was awarded the national accolade, Elder of the Order of the Burning Spear, in December 2011.

# BOARD OF DIRECTORS

### Mr. Francis Gitau Mungai
Non-Executive Director

Mr Gitau holds a Masters Degree in Architecture and Urban Design from the University of California, Los Angeles (UCLA) and a Bachelor of Architecture degree, First Class Honours from the University of Nairobi. He is also a Fellow of the Architectural Association of Kenya (FAAK) and is registered by the Board of Registration of Architects & Quantity Surveyors (BORAQS) in Kenya. He is the founding Partner of Aaki Consultants, Architects and Urban Designer and has worked as an Architect with prominent firms like Triad Architects in Nairobi, and Urban Innovation Group (UIG) in Los Angeles.

He was the Chairman of the Board of National Housing Corporation, where he had previously served as a Director. He has been a Chairman of various bodies such as the Architectural Association of Kenya (AAK), Kenya Private Sector Alliance (KEPSA) where he was Director and Chairman of Building and Infrastructure Board. He is a former lecturer at the University of Nairobi, Architecture and Building Sciences Department, where he focused on both Architectural and Urban Design Studios, as well as Professional Practice and Management.

### Mr. Lerionka S. Tiampati, MBS
Non-Executive Director

Mr. Tiampati holds a postgraduate degree (MSc.) in Marketing and Product Management from the Cranfield Institute of Technology (Cranfield University) in the United Kingdom, a diploma of the Chartered Institute of Marketing (DIPM) from the United Kingdom and an undergraduate degree in Business Administration (B.Com) from the University of Nairobi. Mr. Tiampati is currently the Chief Executive Officer of Kenya Tea Development Agency Holdings Ltd.

He serves on the Boards of KTDA (H) subsidiary companies. Before his current role, he was the Managing Director of Kenya Tea Packers Ltd and Head of Marketing at the Standard Chartered Bank Ltd

### Mr. Lazarus Muema
Non-Executive Director

Mr. Muema holds a Bachelor of Commerce Degree from the University of Nairobi and is a Certified Public Accountant (CPAK). Lazarus was appointed to the Family Bank Board in 2017. He is a highly respected professional in the Finance/Pensions sector with experience spanning over 30 years, having held senior positions in multinational corporations both in Kenya and Europe.

He has been a Finance Manager at Shell Exploration in Kenya and Shell Uganda, a financial controller at Kenya Shell and a finance advisor at Shell International London, rising through the ranks to the position of the Pensions Investment and Policy Advisor for Africa by the time he left in 2011. Currently, he is a pension consultant with Penplan Services Limited, a Pensions Consultancy Firm that he founded in 2011.

He is a board member in various companies including Kenya Orient Insurance Company and East African Gasoil Company. He is also a board member of The Mt. Kenya Academy Foundation. He is currently the Board Chair of Riscura Solutions (Kenya) Ltd, an investment consulting firm with its hold company based in South Africa. He is also a former Chairman of the Association of Retirement Benefits Schemes of Kenya, Bright Technologies Ltd and Nanga Investments Ltd.

# BOARD OF DIRECTORS

**Ms. Mary Njeri Mburu**
Non-Executive Director

Ms. Mburu was appointed to the Board of Family Bank in October 2020. She holds a Masters degree in Business Administration (MBA) from United States International University - Africa, a Bachelor of Science degree in Agriculture from the University of Nairobi.

She is currently pursuing a Doctorate in Business Administration (DBA) in Global Supply Management. Professionally, Ms Mburu is also a Certified Contracting Officer Representative (COR) in Project Management. Ms. Mburu has worked as a Senior Acquisition and Assistance Specialist (Senior A&A Specialist) at USAID overseas Missions designated as a Third Country National (TCN) for six years.

Before her overseas assignment, she worked at USAID Regional Mission in Nairobi for 7 Years as an Acquisition and Assistance specialist (A&A Specialist). Ms. Mburu has vast experience in Project Management in Economic Growth, Education, Governance and Infrastructure. Previously, Mary worked for the Kenya Pipeline Company. as a a Senior Officer in Procurement

**Rebecca Mbithi**
Managing Director and Chief Executive Officer

Rebecca holds an MBA with a concentration in Strategic Management from USIU and an LL. B degree from the University of Nairobi. She is a CPA and a member of the Institute of Certified Public Accountants of Kenya, a Certified Secretary and a Member of the Institute of Certified Secretaries, an advocate of the High Court of Kenya and a member of the Law Society of Kenya. In addition, she is a Certified Executive Coach.

She joined Family Bank in January 2015, taking on the role of Company Secretary & Director, Legal Services. Rebecca was appointed CEO of Family Bank in February 2019. She is a seasoned professional and a respected lawyer with an extensive leadership background in various organisations, having previously worked at Kenya Tea Development Agencies, where she served as Head of Legal and Regulatory Affairs and Rift Valley Railways, where she served as the Company Secretary & Legal Counsel.

She has vast domain expertise and knowledge in law, project finance, corporate restructuring, equity/ debt raising and governance, and has served in the Corporate Governance and Standards Committee of the Institute of Certified Secretaries Kenya.

**Eric Murai**
Company Secretary and Chief Legal Officer

Eric holds a Master of Laws (LL.M) and a Bachelor of Laws (LL.B) from the University of Nairobi and a BSc. In Applied Accounting from Oxford Brookes University.

He is an advocate of the High Court of Kenya, a member of the Law Society of Kenya and a member of the Institute of Certified Secretaries. He is also a certified professional mediator. Eric is the Company Secretary and Chief Legal Officer.

He was appointed Company Secretary and Head of Legal Services in October 2019. Eric is an experienced in-house counsel and corporate governance professional, having previously worked as the Assistant Company Secretary at Britam Holdings Plc and as Legal Counsel at Standard Chartered Bank Kenya.

He has vast experience in banking and finance law, corporate finance projects and corporate governance and regulatory compliance.

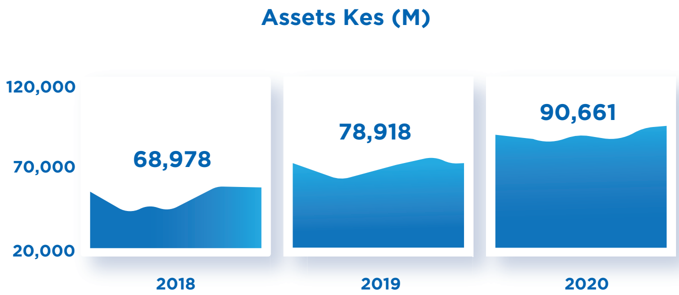
# CHAIRMAN'S STATEMENT

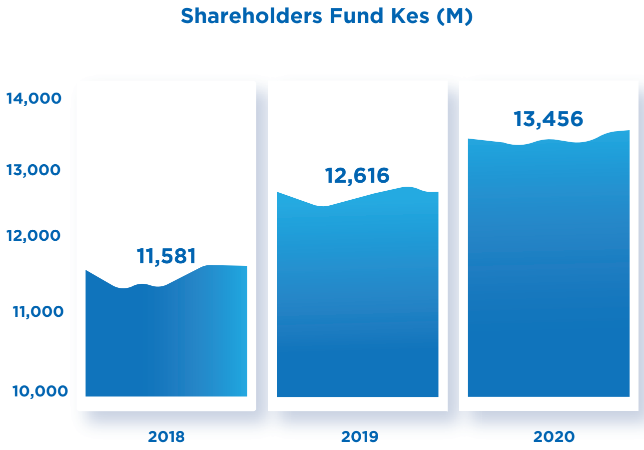
**Dear Shareholders,**

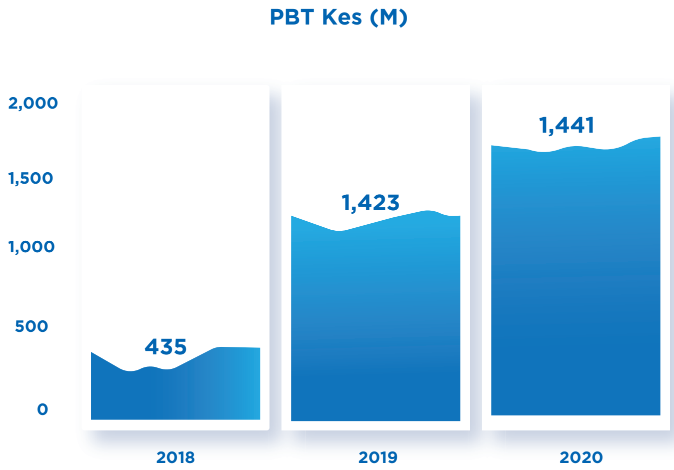
On behalf of the Board of Directors of Family Bank Limited, I am pleased to present the Integrated Report and Financial Statements for the year ended 31 December 2020.
To highlight, the Family Bank Group posted a Kes 1.4 Billion in Profit Before Tax (PBT) despite our loan loss provisions increasing from Kes 1.28 Billion in 2019 to Kes 2.23 Billion in 2020.

This increase of provisions was to provide our investors with comfort on the safety of the balance sheet and certainty into our future earnings as the Bank continues to grow.

Our Total Assets grew by 14.9% to Kes 90.6 Billion primarily driven by the growth in our loan book and deposits at 11.8% and 20.2% respectively. The impressive growth in 2020 is a continuation of three years of stellar performance as shown below;




As you are aware 2020, presented a fair share of challenges among them the onset of the Covid 19 pandemic. The banking sector, through the Central Bank of Kenya, has been at the forefront in providing support to our stakeholders. At Family Bank, we supported our customers and stakeholders in a number of ways; some of these included,

a) Extending Covid support through restructuring Kes 16.5 Billion of our customer loans (26% of the total loan book)
b) Support to the county governments with Intensive Care Units (ICU) beds and other medical equipment worth over Kes 100 Million
c) Ensuring uptime of our digital channels and provision of a Covid 19 compliant environment to all our customers visiting our branches,
d) Implementation of the work from home policy for our employees
e) Medical support to affected employees and their family members

**Chairman's Statement (continued)**

Thriving in this challenging environment has showcased our agility and resilience, and our innate capacity to respond and rebound to business challenges. I am happy to report to the Shareholders that we have seen the resilience and the recovery of the economy in a number of sectors such as Agribusiness, Manufacturing, Education and Health. However, we continue supporting our customers in Hotels, Tourism and Real Estate sectors whose recovery has dragged for a slightly longer period of time to recover.

One of the unforeseen outcomes of the pandemic has been the increased pace of adoption of technology solutions that has helped to enforce the health protocols of social distancing, minimized interaction with cash and reduced movement. We have noted a marked increase in the use of our digital channels, with 87% of all transaction now being conducted outside our branch premises. We envisage that this trend will continue and will influence the way we work and conduct our business in an unparalleled manner. With this in mind, we have strengthened our technology capabilities through increased investments in specialist human and technological resources to ensure that we offer cutting edge products and services.

**Dividends**

At the back of the tremendous balance sheet growth which requires capital support and the need to preserve cash owing to the uncertainty brought about by the Covid 19 pandemic, the Board made a resolution not to declare dividends for the year ended 31 December 2020 and instead proposed, for shareholders' approval a bonus issue of 1 (One) share for every 3 (three) held (1:3).

The Bank is confident of returning to payment of dividends in 2021. We continue to work with management to refine the capital allocation strategy and get the optimal balance between growth and returns. We thank our Shareholders for their patience and understanding. We are committed to ensuring Shareholder value maximization through dividends, appreciation of share value and capital gains.

**Fundraising**

In April 2021, the Bank successfully redeemed its five and half years (5 and ½ year) Medium Term Notes (MTN) worth KES 2.0188 billion that was issued back in 2016 and listed in the Nairobi Securities Exchange. As a Bank, we are eternally grateful for the support to the bank by all the investors who put their trust in the bank and invested with us five years ago.

To continue supporting the balance sheet growth, we have embarked on a Kes 8 Billion medium term note program which will be issued through a public offer. I am pleased to let you know that we have secured the necessary approvals from the Central Bank of Kenya and the Capital Markets Authority to proceed with the first tranche of Kes 3 Billion issue with an option of taking in an additional Kes 1 Billion should there be an oversubscription. The funds raised through the public offer will qualify as part of our supplementary capital for a stronger capital base to support future balance sheet growth. We will also apply the funds to our next phase of investments in technology.

**Future Outlook**

We continue and we are on track to executing our 2020 – 2024 strategic plan which aims at propelling Family Bank to tier one status by 2024. We have identified a number of initiatives that will allow us to actualize this among them; Ecosystem banking through a customer aggregator model, focus on Micro Small and Medium Enterprises (MSMEs), digitization of the bank's operations to grow and scale up our customer numbers and investments in new products developed with the customer in mind.

We have already seen a strong growth in our key performance indicators in the first three months of 2021 (Q1) and this puts us right on track with our 2021 budget. We remain committed to offering support to our customers whose businesses are still recovering. The Board of Directors will continue assessing the economic situation, take appropriate decisions and keep shareholders informed.

**Acknowledgements**

The Board could not have functioned as well as it did in these challenging times without the resolute support and commitment of all my fellow Board members. I would like to thank them for their dedication under trying circumstances to ensuring that our high standards of transparent, efficient and diligent governance were maintained. I also want to thank the management team whose efforts and abilities in ensuring that our new modes of working were implemented effectively without unduly increasing the risk to the Bank. In addition, I would like to thank our customers for their steadfast support as we implemented our processes and technology in transitioning them to more digital and electronic platforms.

Finally, I would like to thank the Group's employees for their resilience and dedication during this difficult year. It was their willingness and skills that ensured that the Group was able to conduct its operations smoothly. They were able to adapt to new ways of working, while still maintaining their commitment to being client centric and providing outstanding levels of service. Without their dedication, the seamless provision of our services could not have been realized.

Thank you.

**Dr. Wilfred D. Kiboro**
Chairman- Board of Directors

# STATEMENT FROM THE CEO

**Dear Shareholders,**

The year 2020 was probably the most challenging for the world in the past three decades. The COVID-19 pandemic severely slowed down economic activities across the globe and the effect will be felt for years to come. However, the ongoing COVID-19 vaccinations across the world have brought some optimism that we will be able to manage the spread of the COVID-19 to safeguard human life and promote forms of livelihoods for our people.

I would like to express our heartfelt appreciation for the support that you – our shareholders and customers - have accorded the Bank, especially during the tough operating environment in 2020. The Bank has been able to maintain profitability mainly because of the support accorded and how we have been prudent in how we managed and steered our business in the 2020 pandemic season through the business and risk continuity plans and frameworks implemented.

### The Banking Environment

The key conversation drivers for the banking sector include the 90% acquisition of Jamii Bora Bank by Co-operative Bank which was then rebranded to Kingdom Bank Limited, adaptation to the COVID-19 environment through various adjustments by banks such as relief, moratoriums and extensions on loans and waving charges on mobile money transactions and increased adoption of technology and digital banking facilitated by the pandemic, lockdowns and restrictions on movement. On the global arena, the world economy grappled with the effects of the health crisis with the disruption of domestic demand and supply, trade, finance and travel restrictions. All major economies' GDP contracted due to effects of COVID except China's economy due to ability to contain the spread of the virus and meet the world's demand for medical equipment such as masks, protective clothing and electronics as people around the world are embracing working from home culture.

### Performance Overview

From the onset of the pandemic, Family Bank committed to supporting our customers and cushioning them from the adverse effects of the pandemic. We purposed to keep businesses afloat, mainly the micro, small and medium-sized businesses, who are our main client base. To date, the Bank has restructured loans of over KES 16 billion as it seeks to support MSMEs during the COVID-19 pandemic.

| | 2019 | 2020 | Change |
|---|---|---|---|
| Customer deposits (KES Bn) | 58.1 | 69.8 | 20.2% |
| Loan book (KES Bn) | 50.6 | 56.6 | 11.8% |
| Total assets (KES Bn) | 78.9 | 90.7 | 14.9% |
| Investments in government securities (KES Bn) | 9.8 | 17 | 72.6% |

Our Profit Before Tax for the group for the Full Year 2020 stood at KES 1.440 billion against KES 1.422 billion in 2019, a 1.3% growth, demonstrating the Bank's resilience amidst a challenging operating environment. Profit After Tax for the full year in review was at KES 1.2 billion, 22.4% earnings in growth compared to the same period in 2019. In line with this, the Board of Directors recommended that there should be no dividend payout for the year ended 31 December 2020 as we channel our earnings to strengthening the financial position of the Bank.

### Customer Deposits

Our customer deposits have recorded a growth of 20.2% in 2020 compared to 2019 standing at KES 69.8 billion supported by an aggressive drive for the SME, retail, private and public sector markets.

### Loans Advanced to Customers

In 2020, our loan book expanded by 11.8% year on year to close at KES 56.6 billion as we continued to advance loans to our customers. This support was across sectors including manufacturing, agribusiness, trade, logistics and technology. While some sectors were favoured by the pandemic, our customers in sectors such as hospitality, transport, among others, have been heavily affected by the COVID-19. As such, loan loss provision expense increased significantly by approximately 1 billion from 1.28 billion in 2019 to 2.23 billion in 2020. a significant increase on a year-on-year basis, as we seek to support customers in these hard-hit sectors.

### Operating Expenses

The Bank's operating expenses increased by 7.3% to KES 5.6 Billion from KES 5.3 Billion.

### Total Assets

In 2020, the Bank reported a 14.9% growth in the total assets to KES 90.7 Billion compared to KES. 78.9 Billion recorded in 2019.

CEO's Statement (continued)

## Capital Position

The Bank maintained healthy positioning on its capital ratios above the minimum regulatory requirement. Liquidity stood at 37.1%, significantly above the minimum requirement of 20%. The core capital ratio closed at 14.3% against the statutory minimum of 10.5% while the total capital ratio stood at 16.9% above the statutory requirement of 14.5%.

## Key Reasons behind the Success

In 2020, we focused on diversification and onboarding of new engagements with strategic partners, growth of our customer base, confidence rebuilding and also brand drive which culminated into the rollout of our six-month-long brand campaign this year dubbed 'Fuzu na Family'.

## Innovation and Digitization

Our mobile application, PesaPap and our other digital payment platforms including internet banking continue to be pivotal in the growth of the Bank as a whole. As a business, we continue to drive our strategy pegged on innovative channels and solutions that ease access to finance and capital that is critical in driving the growth of the Micro, Small and Medium-Sized Businesses, fueling personal growth and that of the public sector.

## The Team Behind the Performance

The success of the Bank was made possible through the over 1,000 staff, 95% of whom are below 40 years of age. We take pride in hiring experienced individuals with unmatched capabilities that will enable the Bank to meet our customers' needs.

### PRODUCTS, SERVICES AND PARTNERSHIPS OVERVIEW

**CITAM partnership** – In March 2020, Family Bank entered a partnership with Christ Is The Answer Ministries (CITAM) aimed at promoting the growth of micro, small and medium-sized businesses registered under the Church's Business Community Forum.


*Family Bank MD & CEO Rebecca Mbithi signed a partnership in March 2020 with CITAM Bishop Rev Dr. David Oginde that would give MSMEs at CITAM access to capital, asset financing and trade finance solutions through a customised package.*

**Simba Corporation partnership** – This partnership seeks to enable Small and Medium-Sized customers in the agribusiness, trade and logistics businesses to receive 100% financing from the Bank to conveniently purchase Fuso trucks, Mitsubishi and Mahindra products at competitive interest rates.

*Family Bank MD & CEO Rebecca Mbithi with Simba Corp's Chief Commercial Officer signed a partnership agreement that will see SME Customers get up to 95% financing to purchase Motor vehicles for their businesses.*

**CEO's Statement (continued)**

**Legal Counsel Forum** – Family Bank participated in the LFA Africa Legal Counsel Forum Themed Gaining Perspective- Enhancing the Effectiveness of African Corporate and Government Lawyers and our CEO participated in one of the panel sessions.


*Family Bank MD & CEO Rebecca Mbithi, Lareine Gold Consulting Founder, Cynthia Lareine and Africa Enterprise Challenge Fund CEO, Victoria Sabula during an international lawyers for Africa Legal Counsel Forum.*

**Business Club training** – Business Club customers participated in a full-day training, facilitated by the European Investment Banking, on build capacity of SMEs in HR practices, financial knowledge, bookkeeping among others.

*European Investment Bank Team Leader Guillermo Bosse and Family Bank CEO Rebecca Mbithi during the value add training for SMEs for Family Bank Business Club in March 2020.*

**Toyota partnership** – Family Bank signed an agreement with Toyota Kenya to extend support to small and medium enterprises offering crucial services during the COVID-19 pandemic period by offering a loan facility for Toyota Hilux pick-ups and Hino trucks. The Bank is offering up to 95% financing towards the purchase of the Hilux single and double cab pick-ups payable within 60 months.

**CEO's Statement (continued)**

**Isuzu partnership** – Family Bank entered into a partnership with Isuzu East Africa in a move to enable customers to access up to 95 per cent financing payable within 60 months on a 90-days repayment holiday on commercial vehicles courtesy of a partnership agreement between the two entities. The asset finance agreement was designed to cushion SMEs from the economic slowdown caused by Covid-19.


*Family Bank CEO Rebecca Mbithi and Isuzu EA MD Rita Kavashe after the signing of an asset financing agreement that will see SMEs get up to 95% financing on Isuzu trucks and pickups.*

**Private Schools partnership with the Kenya Private Schools Association (KPSA)** – Family Bank signed a partnership with Kenya Private Schools Association (KPSA) that offered a stimulus package to support learning when the Ministry of Education began the progressive reopening of schools.


*Family Bank CEO Rebecca Mbithi and the Kenya Private Schools Association (KPSA) Chairperson Mutheu Kasanga during the signing of partnership agreement that will see Family Bank provide private schools with financing to support learning.*

**Performeter Agribusiness partnership** – Family Bank entered into a partnership with Performeter Agribusiness Limited in a deal that will see 100,000 farmers in dairy cooperatives access to credit to finance fodder production, a critical barrier to the competitiveness of Kenya's dairy sector.


*Family Bank CEO Rebecca Mbithi and the Head of Business at Performeter Agribusiness Limited sign a deal to provide financing to dairy farmers in September 2020.*

**CEO's Statement (continued)**

**Wellwise Healthcare Solutions partnership** – Family Bank entered into a partnership with Wellwise Solutions in a move to provide affordable financing options with flexible repayment for MSMEs within the medical sector. The Bank set aside KES 1.3 billion geared towards growing the Micro, Small and Medium-Sized Medical Enterprises (MSMEs) especially during this COVID-19 pandemic to ensure that people can access the closest affordable healthcare clinic or hospital.

**Footprint Expansion** – As part of the Bank's expansion strategy, Family Bank opened a new branch in Wangige market, in Kiambu County bringing the total number of branches across the country to 91 as of the end of 2020.

*Family Bank CEO Rebecca Mbithi, Kiambu Govorner James Nyoro and Founder & Director T.K Muya during the official opening of Family Bank Wangige Branch, Kiambu County.*

**Customer Service Week** – In celebration of the annual Customer Service Week, Family Bank marked the week through a session with customers at the Makueni branch.

*Family Bank Wote Branch Manager, Benson Mwanzia, Family Bank CEO Rebecca Mbithi and a customer mark the Annual Customer Service Week celebrations in Wote.*

**Donations to County Governments and other institutions** – As part of our CSR, we continue to work with several counties to assist vulnerable groups affected by the COVID-19 pandemic and so far, we have contributed over KES 10 million as in-kind support to various County Governments and institutions such as the Teacher Service Commission and the National Police Service.

**Kenya Bankers Association Conference** – Family Bank participated in the Africa Regional e-Conference for Leading Women in Banking and Finance that drew participants from over 10 countries in Africa. The virtual conference was hosted by KBA under the theme "Breaking Barriers and Redefining Leadership in Africa" and Family Bank CEO participated in one of the panel sessions.

## Looking Forward

We have weathered through the pandemic in 2020 and we continue to build our resilience in 2021 even as we combat the third wave of the COVID-19 pandemic. According to World Bank, the global economy is expected to expand 4% in 2021 while that of the Sub-Saharan market is forecast to rebound moderately in 2021 to 2.7% if the countries can contain the spread of COVID-19 infections. With the rollout of the vaccine, we believe that with effective distributions systems both in rural and urban areas, we will be able to contain infections and significantly reduce mortality rates. This will allow us to open up the tourism and exportation markets and in turn, ease restrictions and lockdowns and promote trade.

We are therefore cautiously optimistic that we will start seeing sectors such as agriculture, gradually pick up as the number of infections slow down. As a Bank, we remain committed to supporting our clients and helping them sustain their businesses through the tough operating environment.

Looking ahead, our 2020 to 2024 strategy continues to be pegged on delivering end to end value chain propositions that begin from delivering an unmatched digital and customer experience, growing our pool of strategic partners to diversifying solutions targeted at different customers in our value chain. We are also deliberate in building a sustainable and responsible business and recently, we joined the UN Global Compact and to which we have committed KES 300 Million to advance inclusive development in sports, education, health and water.

We also believe that with the rollout of our 6-month-long brand campaign "Fuzu na Family" this year we will cement our position in the market, drive brand awareness and promote meaningful conversations and relationships with our customers and prospective customers.

I would like to thank our shareholders, customers, Family Bank Board of Directors, Management and Staff for joining hands together, sharing ideas and focusing on our purpose of leading in the positive transformation of peoples' lives in Africa by providing quality financial services through innovative, efficient and reputable practices.
Thank you and God bless you.

**Rebecca Mbithi**
Managing Director and Chief Executive Officer


Trade
Made Easy
We are fast,
reliable and flexible..
We offer:
• Bank Guarantees: Bid Bonds, Performance Bonds
Advance Payment Guarantees & others
• LPO/Contract Financing
• Invoice / Certificate Discounting.
• Import and Export Financing
• Import Duty Financing- Clearing Goods at the port
Terms and Conditions Apply
#FuzuNaFamily
FamilyBank
With you, for life
Family Bank is regulated by the Central Bank of Kenya


"Because You Can Always Bank On Family"
Sustainabilty Report 2020

# Content

# ABOUT THIS REPORT

We are pleased to present our fourth annual sustainability report for the year ended 31 December 2020. The year 2020 was unlike any other in our lifetimes due to the global disruptions and effects of Covid-19. It changed how we think about doing business while reconfiguring how we engage with each other, our environment and our communities. However, we continue to make strides in our sustainability agenda.

The banking industry is a key driver for the economic growth of our country. Banking enables businesses to thrive, create jobs and change the lives of people and communities right from grassroots to across borders.

As a key player, a financial institution such as ours has an important role to play in society. Family Bank's sustainability agenda revolves around three key pillars:

- Building a sustainable banking business
- Contributing positively to Kenya's economy
- Investing in the community in which we conduct our business

Our efforts rest on our commitments to building a sustainable banking business in line with the UN Sustainable Development Goals (SDGs) and the UNEP Finance Initiative - Principles for Responsible Banking 2018 which drive ambition and challenge banks to continuously increase their contribution towards a sustainable future, creating value for both society and shareholders, and help banks build trust with investors, customers, employees and society.

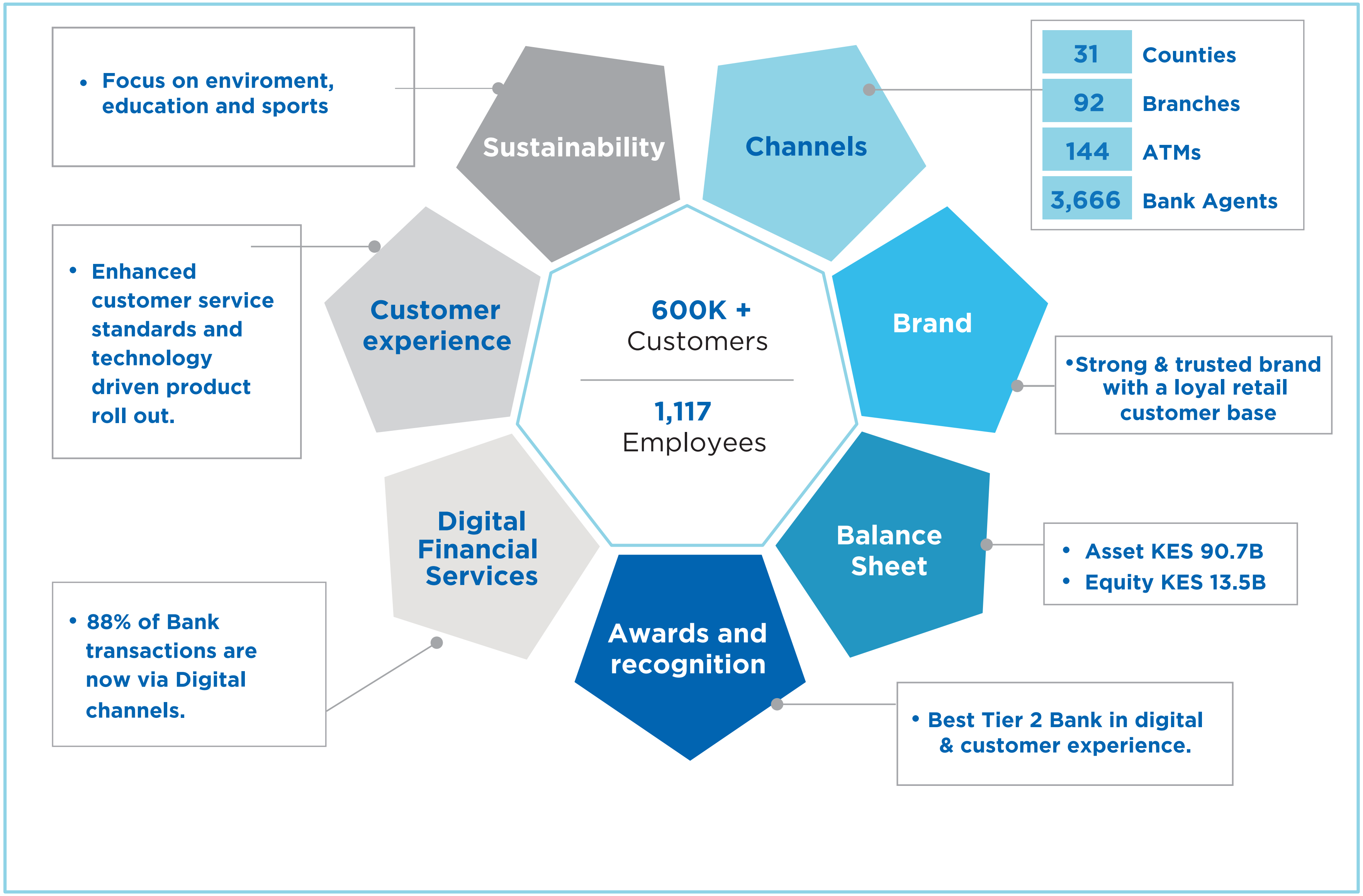
We are keen on delivering on our brand promise of 'with you for life' embedded in our core values centered around transparency, humility, winning together and self-belief; to build a firm fit for the 21st Century. We pride ourselves in customer tailored products that drive efficiency and value to the different segments of the customers we bank. Our strategy continues to be pegged on delivering end to end value chain propositions that begin from delivering an unmatched digital and customer experience, growing our pool of strategic partners to diversifying solutions targeted at different customers in our value chain. Other areas of focus in the past year have been a keen interest to tailor make products for our Micro, Small & Medium Enterprises (MSMEs). As a Bank, we continue to offer value beyond banking services and cushion MSMEs as we seek to build sustainable businesses and fuel the growth of the Kenyan economy. With our current digital platforms, we strongly believe that the future of banking is digital hence the need to drive a digital ecosystem that is sustainable.

Contributing positively to the Kenya's economy is our corporate call to national duty and we are keen to honour and fulfil this promise to our motherland. A complete journey for the customer lifecycle requires a committed banking partner and we believe that we are that partner and we have a duty to support the Government's Big 4 Agenda.

Empowering the community in which we conduct our business is the pride of our family. We strive to empower families, the core unit of any society, through sustainable community investment programs that resonate with our customers. Our community investment programs are concentrated on four key areas:

- Education
- Nurturing sports talent
- Water and Sanitation
- Afforestation to combat climate change

# Family Bank at a Glance



# Our Stakeholders


We believe that stakeholder engagement is key to sustain and build relationships with our different stakeholders. That being said, we connect with our stakeholders regularly to have a better understanding of their concerns and respond efficiently to their needs and meet their expectations. Our stakeholders remain the same as identified during our last reporting cycles and are consolidated under the following groups:

1. Investors
2. Customers
3. Employees
4. Communities
5. Regulators and Government
6. Suppliers
7. Media

We continue to create value for our stakeholders driven by our mission of positively transforming people’s lives by providing quality financial services through innovative, efficient and reputable practices to impact and drive value to the society and the wider macroeconomic environment. To achieve this, sustainability considerations (social, economic and environment) are incorporated in our day to day activities.

The key concerns of each group can be summarized as follows:

| Stakeholder | Description | Key Concerns | Value Delivered |
|---|---|---|---|
| **Investors** | They are initial providers of core financial capital and we disclose to them relevant information to make informed investment decisions as well a seek their perspectives on our financial performance and Strategy. | The key concerns raised by shareholders related to credit risks considering the introduction of interest rate capping and IFRS 9. They were also concerned about business growth prospects in a challenging operating environment. A greater number of shareholders showed interest in how we are embedding sustainability considerations into our business practices. | • Increased net asset value and earnings per share.<br>• Continuous engagement to ensure full disclosure and open communication to inform their investment decisions. |
| **Customers** | Customers remain the largest source of our deposits (financial capital), which enable us fund lending activities. More customers mean greater revenue growth and this can only be achieved by providing superior customer experience. On the other hand, sustainable banking practices and world-class governance and risk management ensure we maintain the trust customers have in us. | They desire banking to become simpler, more intuitive and time-efficient.<br>Excellent customer service, getting it right for customers first time and security for their money and data. | • Secure deposits, investments and wealth, while growing returns.<br>• Sustainable credit that enables wealth creation, economic development and job creation.<br>• Multiple banking channels.<br>• Financial inclusion through affordable products to the previously unbanked.<br>• Innovative solutions that meet their needs. |
| **Employees** | Staff are our greatest asset and key stakeholder. They are the face of the business. We are cognizant of the contribution of our | They want to grow as the business grows, open doors for career progression, opportunities to contribute to society and a work environment that | • Employment<br>• Performance-based promotions<br>• Local and International Training |

| Stakeholder | Description | Key Concerns | Value Delivered |
|---|---|---|---|
| | staff in building this brand and delivering value to our stakeholders. | is friendly, safe and conducive for work life balance. | • Employment equity and gender equality<br>• Continuous improvement of processes. |
| **Communities** | We know that our business cannot succeed in a failing society. Society grants us the decisive license to operate. Our vision as a Bank is to positively transform the lives of people in areas we operate. | Banks greater influence on their customers and employees to prioritize environmental, social and governance matters. | • Transform people's lives through sports, water, education and health.<br>• Sustainable banking practices and regulatory compliance. |
| **Regulators & Government** | Good Corporate citizenship is non-negotiable to us through implementation and compliance with public policies. | Regulation for the banking industry continues to be around key areas such as cyber security, business and professional conduct, corporate governance, financial reporting and financial crime. | • Taxes<br>• Compliance with laws and regulations<br>• Purchase of government and public-sector bonds |
| **Suppliers** | The extensive network of suppliers is not only vital to our ability to provide high-quality financial services reliably and efficiently, it also represents an opportunity to extend our ability to positively impact the communities and environments in which we operate. | Supplier diversity | • Procurement program that caters for special interest groups: women, youth etc. |

In order to enrich relations with the above stakeholders, the Bank conducted periodic communications and has reviewed its engagement process to offer a variety of ways for stakeholders to contact us and inform us of their needs, concerns, opinions and suggestions in real-time. We are actively maintaining multiple channels of communication, learning what we are doing well and where to improve.

# Material Matters

### Family Bank Material Issues and Sustainable Development Goals

In 2015, world leaders promulgated the Sustainable Development Goals (SDGs) after the Millennium Development Goals (MDGs) period ended. The SDGs call for worldwide action among governments, businesses and civil society to end poverty and create life of dignity and opportunity for all, within the boundaries of the planet.

| | |
|---|---|
| Financial Inclusion |   |
| Talent Management and Diversity |   |
| Ethics and Integrity<br>Customer privacy |   |
| Empowering Communities |   |
| Environmental Footprint<br>Sustainable financing |   |
| Product Development and Digital Innovation<br>Customer satisfaction and communication |   |

### 1. Financial Inclusion

Financial inclusion remains a core pillar on our sustainability agenda to drive inclusion from a consumer and product perspective. We are committed to ensure grassroots penetration of financial services through our diversity of products offering.

| | 2019 | 2020 |
|---|---|---|
| Number of Family PesaPap Agent outlets | 5,010 | 5,369 |
| Active number of PesaPap mobile banking customers | 250,000 | 366,364 |
| Number of PesaPap Mobile loans processed | 217,602 | 316,231 |
| Value of PesaPap Mobile loans processed | 2,840,000,000 | 4,910,000,000 |

## 2. Talent Management and Diversity

In 2020, the Covid-19 pandemic drastically changed our ways of working. Staff had to quickly adopt to the government guidelines and the Bank implemented initiatives to keep us all safe as we continued to serve our customers. However, with the tough economic environment witnessed globally, the Bank took a staff rationalization program. This was done in accordance to the human resource regulations and law.

The Bank has employed a total of 1,117 employees, 52% male and 48% female. 289 employees are below 30 years. 587 employees are between 31-40 years. Only 121 employees are above 41 years and has 110 Temporary Staff. The Board of Directors comprises of eight (8) directors of which three (3) are female. The Bank's senior management comprises of ten (10) of which three (3) are female. Remuneration is based on performance except for new hires whose salary depends on their entry grade.

52%
**Male**

48%
**Female**

We provide comprehensive training to our employees to enable them to apply our policies and standards consistently. However in 2020, due to COVID-19 all face-to-face training sessions were converted into online sessions. The Bank runs a comprehensive training scheme with three (3) days as the average number of training days per employee.

Further, Family Bank keeps a close track of the wellbeing of our employees. We strive for an environment where all our employees feel good, recognized and involved. We have adopted and successfully implemented an Occupational Safety and Health Management System in the Bank with the aim of continuously improving the well-being of our employees from the recommendations given from the annual reports filed from Occupational Safety and Health Audits (OSHA) with the relevant authorities.

## 3. Ethics and Integrity

The Board of Directors and Management of the Bank have put in place stringent policies and structures to ensure good corporate governance and strict adherence to the rule of law as it undertakes its business and mandate to its customers, regulator and shareholders. The Bank has invested in a robust Anti-Money Laundering system with the ability to detect suspicious transactions, put in place measures to ensure strict compliance with our Know-Your-Customer (KYC) policy, introduced regular mandatory training for all serving staff and rolled-out a detailed induction curriculum for all new hires.

**Fraud** - The Bank has enhanced its systems for fraud prevention, monitoring and loss recovery. In 2020, the Bank experienced 157 fraud cases in the reporting period of which 33 were successful and 124 unsuccessful. The number of employees dismissed as a result of fraud was 26. The Bank undertook three fraud trainings in the same period with 120 staff taking part. Furthermore, as a member of the Kenya Bankers Association, the Bank carried out an annual industrywide card, mobile and online safety awareness campaign (Kaa Chonjo! — Be Alert!) and this was communicated through various channels.

**Whistleblowing portal** – The whistleblowing portal seeks to inculcate a 'speaking up' culture among employees and provides a mechanism for giving feedback anonymously, securely and confidentially report corruption or any lack of compliance directly to the Chief Executive Officer. Employees need a trusted reporting process to raise issues involving improper, unethical or inappropriate behavior, and this portal relays such concerns for review, investigation and action. All these efforts are targeted towards improving the operational excellence at the Bank.

## 4. Empowering Communities

Our vision is to be the financial institution that leads in the positive transformation of people's lives in the region because we know that we are as strong as the communities we operate in. Our brand promise to our customers 'With you for Life' goes beyond our provision of financial services to improving the lives of the people of the communities in which we operate in through 4 key pillars: Education, nurturing sports talent, Water and Sanitation and Afforestation to combat climate change.

**Education** - Inclusive and equitable quality education is one of the Sustainable Development Goals by the United Nations that seeks to promote lifelong learning opportunities to all. One of the defining factors of our focus on the education pillar is to increase access to secondary schooling by providing comprehensive scholarships and holistic growth of the students through The Family Group Foundation.

- ***Scholarship Programmes***

  A total of 474 students have been offered scholarships both in high school and tertiary institutions. As at December 2020, the Foundation had 103 students in the Scholarship Program. A total of 44 students sat for their 2020 K.C.S.E examinations.

- ***Mentorship Programmes***

Over the years the Bank has been running a mentorship for students through the Family Group Foundation. This program targets students under the Family Group Foundation scholarship fund. In 2019, all sponsored students had a three-day workshop where they were taken through counselling on academic, personal and career-related aspects of their lives. All beneficiaries are paired with mentors from the Foundation's benefactors who come from all Family Bank branches across the country.

"The Family Group Foundation Scholarship beneficiaries at a past mentorship event."

- ***Afya Elimu***

In 2015 we partnered with the Higher Education Loans Board (HELB) to roll out the Afya Elimu Fund together with other partners. The Afya Elimu Fund aims to support over 2,500 health workers during the first year and a further 1,500 health workers every year in the fields of nursing, clinical medicine, laboratory services, nutrition and health records information technology. This partnership will see the us donate KES10 Million through the Family Group Foundation. The support from the Family Group Foundation will be sufficient to educate at least 100 students over this period. This will be a significant contribution towards reducing the shortage of health workers across the country. To date the Foundation has contributed KES 4 Million that has supported 42 students at the Kenya Medical Training College.

**Sports** - The Family Group Eldoret Half Marathon was launched in 2007 has provided a platform where young athletic talent has been discovered, nurtured and gone on to conquer the world. In 2020, due to the Covid-19 pandemic, the Bank made a difficult decision and did not host the 14th edition of the annual race. Just like the previous 3 years, the Bank continued supporting projects that give an opportunity to autistic children access quality education at Sosiani Primary School, making it the only school in Rift Valley region that offers a special needs education program for autistic pupils.

Under the rallying call 'Champions run for Autism' we aim to build more centres to cater for children living with autism and improve on the 97 centres existing in the nation.

"Sosiani Primary School Autism Centre built and equipped from proceeds of the Family Group Eldoret Half Marathon"

**Water and Sanitation** - In 2020 Family Bank revamped its partnership with water.org, an international Non-Governmental Organization whose key area of focus is the improvement of water and sanitation access and standards globally. This partnership will see the Bank offer loan facilities to water, sanitation and hygiene (WASH) service providers and at the same time attain the social impact goal of achievement of the Sustainable Development Goal (SDG) 6 that focuses on ensuring access to clean water and sanitation for all.

**Agribusiness** - In 2020 Family Bank partnered with Perfometer Fodder financing to offer a robust product proposition to dairy farmers across the country. An initiative aimed at driving food security and boosting dairy farming with advanced technology for greater output. This is in line with the bank's agenda on social impact through sustainable development goals to alleviate poverty and create opportunities to food security in the country.

**Health** - In 2015, Family Bank Constructed the Kenyatta Hospital Children's Oncology ward playground. As part of the maintenance, the playground was renovated and refurbished at a cost of KES 1.2M in 2020.

## 5. Environmental Footprint

In 2019 and 2020, the Bank partnered with Young African Leaders Initiative (YALI), Nation Media Group and schools around Nairobi to drive a countrywide tree planting initiative that will see both corporates plant over 4,000 trees over the next five years. This is in line with the Governments agenda of planting 1.8 billion trees by 2022. Since launch of this initiative dubbed Trees for Life, the Bank has held tree planting exercises in Machakos and Nairobi counties. The bank plans to continue with this exercise in line with our SDG agenda and as we continue to abide by the standards of the United Nations Global Compact Network.

In 2020, Maji Kwa Wanafunzi the Staff CSR Initiative, saw the Bank donate 20 water tanks to various public primary schools across the country. Since its launch in 2017, this staff CSR initiative has seen the Bank donate over 60 water tanks to various public schools across the country, impacting over 50,000 students. This hugely successful project, in which the Bank matches all staff contributions shilling-for-shilling targets to impact 150,000 learners countrywide in the next three years. Through this initiative, Family Bank members of staff from the 92 branch-network and the head office passionately contribute to this worthy initiative. The initiative is aimed at transforming the lives of school going children through provision of clean drinking water.

## 6.Product Development and Digital Innovation

In 2020, the Bank launched three (3) new product offering, got into key strategic patnership and improved one (1) process:

- ***Revamped PesaPap:*** In August 2020, we broadened our mobile banking offering, releasing a revamped version of PesaPap Mobile App with a new look and feel, additional features and enhanced user experience.

- ***Launch of Family Pay:*** In 2020, the Bank launched an online bulk payment channel - Family Pay. This is a platform through which corporates, financial institutions, SMEs, institutions, government agencies and businesses can conduct their bulk financial transactions and monitor transactions at their own convenience.

- ***Introduction of M-Pesa Float:*** The Bank introduced M-Pesa Float where agents can now purchase float for their M-pesa agency businesses through PesaPap mobile banking platform.

- ***Sendwave Partnership:*** Through our diaspora customer feedback, the Bank partnered with Sendwave, a Mobile Application that enables customers to link their debit cards and make transfers to other bank accounts and mobile wallets. This makes it easier for them to send money home and conveniently.

- ***Revamped Teachers proposition:*** The Bank reviewed its products offering to Teachers in a move to provide diversity and inclusion for both private and public schools teachers.

- ***School financing proposition:*** In response in providing solutions to our customers in 2020, the Bank introduced financing of private and public schools to enable them to meet their day-to-day requirements and to get reprieve for continuity in learning. The facility will cover salaries, purchase Personal protective equipment (PPE's) for staff, adoption digital learning platforms, purchase hand sanitizing stations among other needs.

- ***Private Hospitals Health proposition:*** In an effort to revamp the health sector inclusion into economic development, the bank entered into a partnership with Well-wise solutions to offer financing for private sector hospitals and clinics across the country.

- ***Revamped Asset Financing Partnerships:*** 2020 saw the Bank foster growth in asset financing relationships with Simba Corp, Isuzu Kenya and Toyota Kenya in an effort to widen the product proposition on asset financing across the country.

- ***Automation:*** In 2020, Family Bank automated its loan application processing needs so as to shorten the turn around time and enhance efficiency and increase our customer satisfaction.

## Awards and Recognition

We are proud to announce that Family Bank received 2 awards from the Kenya Bankers Association 2020 Customer Satisfaction Survey where we ranked:

i) Best tier 2 Bank  in customer satisfaction

ii) Overall second best bank in customer responsiveness and satisfactory digital experience accross all banking tier groups.


"Family Bank CEO Rebecca Mbithi, receives an a award from Kenya BankersAssosiation CEO Dr. Habil Olaka"

## 7. Customer Privacy, Satisfaction, and Communication

Family Bank respects customer privacy and is committed to keeping  personal information and other data confidential and secure. All employees are continuously trained in ways to ensure zero breaches of customer data especially during induction.

We do not disclose customer data information to third parties unless we have their permission or we are under a legal or similar obligation, for example, regulators, supervisors, or governments.

The Bank has a call centre with a dedicated team of 25 agents available to respond to customers queries 24 hours a day, 7 days in a week. We also have a online chat facilty available on the Bank's website. We have deepened our customer interactions through social media (Facebook, Twitter, LinkedIn, and WhatsApp)

### Social media numbers as at 31 December 2020:

| | December 2019 | December 2020 |
|---|---|---|
| Facebook | 46,329 | 53,092 |
| Twitter | 19,818 | 22,592 |
| LinkedIn | 21,225 | 24,225 |

# COVID-19 RESPONSE

2020 was obviously dominated by a significant health crisis caused by the Covid-19 virus and continues to pose a major threat to the Bank, country, and the world at large. It carries a threat of a worldwide economic decline with the International Monetary Fund (IMF) revising its global growth projections to below the 2.9% achieved in 2019 from an initial projection of 3.3% to -3.0% (negative 3.0%). Cautiously, the IMF also projects that if the pandemic fades in the second half of 2020 and if policy actions taken around the world are effective in preventing widespread bankruptcies, extended job losses, and system-wide financial strains, global growth in 2021 could rebound to 5.8%.

In Kenya, we anticipate that the actions taken by the Government to contain the spread of COVID-19 and to save lives will result in disruptions of economic activities in our region and will have a far reaching impact on private sector performance and the social well-being of our people.

Family Bank took and continues to take measures to protect customers and staff across our 92-branch network in line with the Government's directive by availing thermal readers, sanitizers and designated markings to enhance social distancing in our banking halls. We have made it mandatory for customers to wear masks while visiting any of our branches. We continue to sensitize our customers through educational campaigns through SMS, in-branch and on social media on staying safe and how to transact safely on our digital platforms.

Our Digital banking continues to be an efficient engine for all of our customers' transactions. The Bank has waived all charges for balance inquiries and money transfers between account and mobile money wallets. During this pandemic, the Bank also offered relief and extension of loans to customers at no extra cost in order to cushion our customers from the adverse effects of COVID-19 on their businesses. The Bank has also restructured loans worth KES 16 Billion.

We also recognize that the COVID-19 pandemic has resulted in difficult operating environment. As a result, as part of our strategy to build a sustainable business, the Bank continues to work with the County Governments to assist vulnerable groups affected by the pandemic. So far, we have contributed KES 12.55 Million as in-kind support in the form of ICU beds, ventilators, personal protective equipment, face masks, foodstuffs, among others.

To ensure sustainable business operations, during the Covid-19 pandemic, the Bank has put in place a robust Business Continuity Plan (BCP) aimed at driving operational efficiency and sustaining both staff and customers' health and safety across our branches. Among the key measures put in place to reduce staff and customer infections are as below;

- Monthly branch fumigation with prioritization of high risk branches. Provision of masks, sanitizers and thermal guns at all branches and offices countrywide.
- Identification of high risk business units which include: Cash Unit, Security (Guards in branches, ATMs and Head Office), Teller, Customer Service Staff, Relationship Managers/Officers and Digital Marketing Associates and ensuring they are well kitted to avoid infections.
- Provision of safety kits to staff. These include masks and hand gloves and utilization of face-shields for customer facing staff in high risk areas.
- Identification of back-up/alternate staff for branch relief in case a positive case is identified.
- Periodic reminders to staff on health measures to minimize community spread within the bank.
- Enhanced cleaning routines using disinfectants at all times.
- Encourage use of technological alternatives through use of electronic approvals and avoidance of physical meetings and printed documents.
- Zoning and use of alternate sites to ensure social distancing amongst staff.
- Provision of sanitizers at all the bank's entry points including ATMs, Lifts and washrooms.

# FAMILY BANK COVID -19 SUPPORT

The Bank undertook measures across the country to support counties to enable them to deal with the pandemic effectively.

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the governance of the Company and is committed to high standards of corporate governance and business ethics. The Board understands that good corporate governance practices are essential to the long term success of a company, creating trust and engagement between the Company and its stakeholders.

## 1. STATEMENT OF COMPLIANCE

The Company continues to comply with the Companies Act, Banking Act as well as the Central Bank of Kenya Prudential Guidelines on Corporate Governance. The Company had a listed Medium Term Note in the Fixed Securities Segment of the Nairobi Securities Exchange (NSE) which matured on 19 April 2021 and as such, has been complying with the Capital Markets Act Cap. 485 and all subsidiary legislation made thereunder, including the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (CMA Governance Code). The Company also complies with the NSE rules, guidelines and directions issued by the Capital Markets Authority and the NSE.

Further, the Company also abides by the tenets of the Constitution of Kenya and all other laws as a law-abiding corporate citizen.

## 2. BOARD MANAGEMENT

The Board of Directors meets at least once every quarter and operates within a formal schedule based on the Board calendar. The Chairman is responsible for managing and providing leadership to the Board, while the Chief Executive Officer is responsible to the Board for strategically overseeing and managing the business in accordance with the Board instructions.

The directors are given appropriate and timely information on key activities of the business regularly and on request. Information on agenda items is provided prior to meetings as well as through additional presentations to the Board. Board members have access to management through the Chairman, the Chief Executive Officer and the Company Secretary. Directors may seek independent professional advice on specific matters. The Company Secretary is responsible for ensuring effectiveness of board meetings and implementation of corporate governance processes.

### Board Charter

The Board is guided by a Board Charter which documents the constitution, roles and responsibilities of the Board. The Charter outlines roles and responsibilities, functions and powers of the Board and management, the principles of the Company's limits and delegation of authority and matters reserved for the Board and the policies and practices of the Board.

Among the key provisions of the Board Charter are:

- The role of the Chairman and the Chief Executive Officer are separate;
- Meetings of the Board will be held as frequently as the Board considers appropriate, but not less than four times a year;
- The Board may take independent professional advice in furtherance of its duties.
- Appointment, term of office, retirement and resignation of Directors;
- A majority of the non-executive directors shall be independent;
- Requirement of directors to avoid conflicts of interest;
- Requirement on directors to maintain confidentiality.

### Board Composition

The Board comprises of seven non-executive directors and one executive director. The Chairman and three of the non-executive directors are independent as defined by the CMA Governance Code. The directors come from different professional backgrounds, with varied skills and experience. The Company Secretary is a member of the Institute of Certified Secretaries (ICS) in good standing.

### Board Independence and Conflicts of Interest

The CBK Prudential Guideline on Corporate Governance and the CMA Governance Code require that at least one third of the total members of the Board be independent. The Company is in compliance with these requirements. The Board has set standards to ensure the Directors' independence. The fundamental premise of the standards is that any Director is independent of management and free of any business or other relationship that could materially interfere with exercising their independent judgement. Directors are required to disclose their areas of conflict, and to refrain from contributing to or voting on matters in which they have conflict.

# CORPORATE GOVERNANCE STATEMENT (Continued)

### Board Independence and Conflicts of Interest (Continued)

The role of Chairman and the Chief Executive Officer are separate and distinct. The Board maintains a good working relationship with the Chief Executive Officer and Management without detracting from the Governance Principles of Accountability and Independence that must exist to ensure sustainable performance.

## Separation of the Role of Chairman and Chief Executive Officer

### The Board Chairman

The Chairman of the Board is an Independent Non-Executive Director. The Chairman leads and manages the work of the Board and ensures that decisions are taken on a sound and well-informed basis. The Chairman provides leadership to the Board and is responsible for the Board's effective overall functioning.

### The Chairman also ensures:

a) the smooth functioning of the Board, the governance structure and instils a positive culture in the Board;
b) guidelines and procedures are in place to govern the Board's operation and conduct;
c) all relevant issues are on the agenda for Board meetings and all Directors are able to participate fully in the Board's activities;
d) the Board debates strategic and critical issues; and
e) the Board receives the necessary information on a timely basis from management.

### The Chief Executive Officer

The Chief Executive Officer is wholly responsible to the Board for the day to day running of the Company. The collective responsibility of the Company's management is vested in the Chief Executive Officer and bears ultimate responsibility for all management functions.

The Chief Executive Officer undertakes the following key responsibilities:

a) ensures that the policies spelt out by the Board in the corporate strategy of the institution are implemented;
b) identifies and recommends to the Board competent officers to manage the operations of the Company;
c) establishes and maintains efficient and adequate internal control systems; and
d) ensures that the Board is frequently and adequately appraised about the operations of the Group.

In addition to the Chief Executive Officer, members of senior management of the Company attend Board Meetings by invitation to ensure informed and efficient decision-making by the Board of Directors. Further, the Board may invite third party professionals to attend Meetings and provide opinions and advice when necessary to enable the Board discharge its fiduciary mandate.

### Board Leadership and Responsibility

The Board recognises its responsibility to provide effective leadership based on an ethical foundation. This involves responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency all of which are enshrined in our core values. The Board Charter sets out the responsibilities of the Board which include:

- The provision of strategic guidance and effective oversight of management and maximization of the Company's financial performance and shareholder value within the framework of appropriate risk assessment.
- The provision of the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.
- Cognisant of its responsibility for defining appropriate governance practices and to ensure that such practices are followed and periodically reviewed for improvement, the Board has met at regular intervals to, amongst others things:

    - Agree on the Bank's strategic objectives, and its roadmap to achieving the agreed objectives;
    - Review and approve the Bank's annual budget;
    - Review the Bank's performance against approved budget;
    - Review the Bank's policies and procedures;
    - Consider and approve the annual and interim financial statements;
    - Recommend dividends to the shareholders;
    - Evaluate the performance of the Chief Executive Officer, and
    - Approve other matters of fundamental significance.

# CORPORATE GOVERNANCE STATEMENT (Continued)

### Appointment, Composition, Size and Qualifications of Board Members

The Board has appointed a Nominations Committee, which proposes new members for Board appointment, as well as spearheading Board evaluation. In proposing appointments to the Board, the Committee ensures the achievement of diversity in its composition, as well as ensuring that at least three-fifths of the Directors are Non-executive and at least one third of the total number of Directors are Independent.

The Board's composition provides a mechanism for representation of any minority shareholders without undermining the collective responsibility of the Directors.

### Principle on Age Limit for Board Members

The CMA Governance Code has prescribed 70 years as the age limit for its Directors. Any Director who has reached the age of 70 years resigns from the office of Director at the following Annual General Meeting and Shareholders are informed of such resignation at each Annual General Meeting. If any such Director wishes to continue serving in the Board, he/she must seek the approval of the Shareholders at an Annual General Meeting.

### Governance Audit

In line with the CMA Code of Governance, a governance audit was conducted on the Company in January 2020. The Audit rating was "Compliant" and per the CMA Code of Governance, the next audit will be conducted in 2022.

## 3. RISK MANAGEMENT

### Why it matters

As a financial services provider, effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. Our Risk Management Framework sets out lines of responsibility and authority for risk-taking, governance and control. The Board of Directors is ultimately responsible for ensuring the oversight of all risks across the enterprise and has primary responsibility for taking action to ensure risk management policies, programs and practices are in place.

The Board delegates certain responsibilities to standing Board Committees, which oversee and monitor these risks:

- Risk Management and Compliance Committee
- Audit Committee

### Our approach

We have a Risk Management Framework, approved by the Board of Directors that prescribes a comprehensive set of protocols and programs for conducting our business activities. This framework seeks to ensure that risks to a business undertaking are appropriately managed to achieve the Company's business objectives over time. The Risk Management Framework, corporate strategy and business objectives are all aligned and risk management protocols and programs are embedded in every business segment.

Our Risk Appetite Policy, also approved by the Board of Directors, sets out specific constraints that define the aggregate level of risk that the Company is willing to accept. The Company's risk appetite seeks to balance the various needs, expectations, risk and reward perspectives and investment horizons of key stakeholders. In particular, our risk appetite supports the pursuit of shareholder value while ensuring that all the stakeholders' interests are looked after.

Our risk management program is embedded in the Company's culture, which encourages ownership and responsibility for risk management at all levels. A key premise is that all employees have an important role to play in managing the Company's risks.

Assurance is guaranteed via risk department, internal audit, compliance and enforcement teams, external audits by PwC, Central Bank Audit, Capital Markets Authority and Nairobi Securities Exchange reviews.

# CORPORATE GOVERNANCE STATEMENT (Continued)

## Relations with Shareholders

The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Companies Act, 2015 and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit the website www.familybank.co.ke and click on investor relations for general information on the Company as well as annual reports. In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Bank's performance in general meetings.

In 2020, due to the Containment Measures announced by the Government with regard to the Covid 19 Pandemic, the AGM was held through a virtual platform in August. Through the virtual platform members were able to raise their questions to the Board and cast their votes, and the Directors and Management were able to respond to the questions raised.

## Board Activities 2020

### a) Board attendance

The Board held 10 board meetings during the year. All the meetings convened had quorum.

The attendance of the individual directors was as follows:

| Name | 22.01.20 | 18.03.20 | 25.03.20 | 17.04.20 | 11.05.20 | 22.05.20 | 04.08.20 | 21.08.20 | 01.10.20 | 23.11.20 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dr. W. Kiboro (Chairman) | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |
| Dr. R. Waweru | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |
| Mr. L. Muema | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |
| Mr. L. Tiampati | Present | Present | Present | Present | Present | Present | Present | Apology | Present | Present | 90% |
| Mr. T.K. Muya | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |
| Mr. F. Mungai | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |
| Ms. M. Mburu* | | | | | | | | | | Present | 10% |
| Ms. R. Mbithi | Present | Present | Present | Present | Present | Present | Present | Present | Present | Present | 100% |

*Appointed to the Board in October 2020*

### b) Response to Covid 19 Pandemic

The Board through the Risk Management Committee reviewed the Bank's Business Continuity Plans in response to the COVID 19 Pandemic and the containment measures announced by the Government. Board meetings and the AGM were held via a virtual platform. The Board considered the effects of COVID 19 on the Bank's long term strategy.

### c) Board Training and Continuous Professional Development

During the year, the Board members attended training on Corporate Governance, Credit Risk and IFRS 9 as part of Continuous Professional Development and in line with CBK Prudential Guideline on Corporate Governance.

### d) Board Evaluation

The annual Board evaluation was conducted in March 2021 in a process led by the Board Chairman and supported by the Company Secretary. The Board conducted the process internally and engaged an analyst to analyse the results of the evaluation.

The evaluation entailed an evaluation of the Board, the Company Secretary, peer evaluation for each director, evaluation of the Board Chairman and the Board Committees. It covered overall Board interactions, conduct of board meetings and scope of control exercised by the directors. Following the exercise, the directors identified areas that required further consideration by the Board and these issues have been captured in the rolling agenda.

# CORPORATE GOVERNANCE STATEMENT (Continued)

### 4. COMMITTEES OF THE BOARD

The Board has six Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Management Committee, the Board Credit Committee, the Board Nomination Committee, Board Strategy Committee and the Human Resources Committee. Three of the six committees are mandatory from a regulatory perspective while three have been established to provide dedicated oversight on specific key functions of the Bank. Board Committee members are appointed by the Board which also reviews the composition of each Committee regularly.

#### 4.1 Board Audit Committee

In accordance with the Central Bank of Kenya regulatory requirements, the Board Audit Committee comprises of only non-executive members of the Board who are independent of the day-to-day management of the Group's operations. The terms of reference of the Committee as documented in the Board Audit Committee Charter are achieved through review and evaluation of the integrity of the financial statements of the Group, review of internal controls, receiving the findings of the internal auditors and recommending appropriate remedial action. The Committee also reviews financial statements and recommends them to the Board for approval, nominates the Bank's external auditors for appointment by shareholders, reviews management reports and reports from external auditors concerning deviations and weaknesses in accounting and operational controls and also coordinates working relationship between the internal audit function and external auditors.

In addition the Committee monitors the ethical conduct of the institution as well as considering the development of ethical standards and requirements including effectiveness of procedures for handling and reporting complaints and review of any related party transactions that may arise within the banking institution. The Committee further reviews and approves the risk based annual audit for the Internal Audit at the beginning of each year. In line with its mandate, the Committee reviewed the unaudited and audited financial statements for the full year 2020 and ensured that the same were ultimately approved by the Board. The Committee further reviewed the internal audit reports presented by the Head of Internal Audit for audits undertaken during the year in line with the approved audit plan and recommended appropriate remedial actions in order to ensure integrity and reliability of the Group's internal controls. In addition, the Committee held sessions with PwC, the Bank's external auditor, to receive the auditor's Statutory Audit Plan as well as the independent report with regards to assurance on the Group's financial statements. The Committee held five meetings during the year under review. The members of this committee during the year under review were Mr. L. Muema (Chairman), Dr. R. Waweru and Mr. L. Tiampati. The Head of Internal Audit attended all Board Audit Committee meetings.

#### 4.2 Board Credit Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book. In 2020, there was specific focus on lending under the effects of COVID 19 Pandemic and restructuring of loans.

The Committee met four times during the year under review. The members of the Committee in the year under review were: Mr. F. Mungai (Chairman), Dr W.D Kiboro, Mr T.K. Muya and Ms. R. Mbithi. The Head of Credit attended all Committee meetings.

#### 4.3 Board Risk Management Committee

The Committee oversees the Company's preparedness and mitigation for the major risks faced by the Company across the business including operational risk, strategic risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk. The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing the risks. During the year 2020, the Board Risk Management Committee received and deliberated on the various risk management reports from the Chief Risk Officer. The Committee also approved new policies as well as amendments to various policies. The Committee reviewed the Internal Capital and Adequacy Plan (ICAAP) before submission to CBK. Further, the Committee provided guidance to the Bank over Business Continuity Plans with regards to Covid 19 Pandemic. The Committee met four times during the year and recorded a quorum during all its meetings. The members of the Committee in the year under review were Mr. L. Muema (Chairman) and Dr. R. Waweru and Mr L. Tiampati. The Chief Risk Officer attended all Committee meetings.

#### 4.4 Board Human Resource Committee

The Committee acts as the link between the Board and management and is responsible for the review of the human resources policies and practices, particularly in relation to the operations of the various business units. The Committee ensures that the organisational structure supports the business strategy and growth and also assists in the recruitment of key management staff .

The Committee met six times during the year under review. The members of the Committee, which is Chaired by Dr. R. Waweru, are Mr T.K. Muya, Mr F. Mungai, Dr W.D Kiboro, and Ms. R. Mbithi. The Head of Human Resources attended all the Committee meetings.

# CORPORATE GOVERNANCE STATEMENT (Continued)

### 4.5 Board Strategy Committee

The Committee analyses the strategy of the Group and provides oversight over the implementation of the strategy approved by the Board by reviewing progress on a regular basis. They review the budget and strategic plan of the Group prior to submission to the Board.

The focus of the Strategy Committee in 2020 was to review the implementation of the Company's five-year (2020 – 2024) Strategic Plan which seeks to grow the Bank to Tier I status.
The Committee met three times during the year and achieved quorum in all its meetings. The members of the Committee are Dr. R. Waweru (Chairman), Dr W.D Kiboro, Mr T. K Muya, Mr. L. Tiampati, and Ms. R. Mbithi.

### 4.6 Board Nomination Committee

The Committees regularly reviews the structure, size and composition of the Board and make recommendations on any adjustments deemed necessary. It identifies, nominates and recommends for the approval by the board, candidates to fill board vacancies as and when they arise. The Committee members are Dr. R. Waweru (Chairman), Dr. W.D Kiboro and Mr T.K Muya.

## 5. BOARD PERFORMANCE

The Board had full access to corporate information and sufficient detail to enable a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard. Overall, the Board's performance was efficient and effective, leading to the remarkable performance of the Group in all parameters during the year.

## 6. CAPITAL STRUCTURE

a) Share Capital

The authorised and issued share capital of Family Bank Limited consists of only ordinary shares as disclosed on note 30 to the financial statements.

b) Top Ten Shareholders as at 31 December 2020

| No. | Shareholder | No. of Shares |
|---|---|---|
| 1 | Kenya Tea Development Agency Holding ltd | 212,184,905 |
| 2 | Estate of the Late Rachael Njeri | 167,143,948 |
| 3 | Daykio Plantations Limited | 158,460,364 |
| 4 | Titus Kiondo Muya | 72,998,502 |
| 5 | Equity Nominees Ltd A/C 0084 | 46,417,000 |
| 6 | PA securities | 44,444,445 |
| 7 | Julius Muya Kiondo | 33,448,788 |
| 8 | Ann Muya | 33,428,788 |
| 9 | Mark Keriri | 33,428,788 |
| 10 | Sheila Kahaki Muya | 33,428,788 |
| | Top 10 Shareholders | 835,384,316 |
| | Others | 451,723,226 |
| | Total Issued Shares | 1,287,107,542 |

# CORPORATE GOVERNANCE STATEMENT (Continued)

c) Distribution of Shareholders as at 31 December 2020

| | No. Of Shareholders | No. Of Shares | Percentage |
|---|---|---|---|
| 10,000,000 - ABOVE | 17 | 993,756,605 | 77.21% |
| 50,000 - 9,999,999 | 622 | 238,181,103 | 18.51% |
| 10,000 - 49,999 | 2,068 | 37,888,712 | 2.94% |
| 1 - 9,999 | 3,233 | 17,281,122 | 1.34% |
| | **5,940** | **1,287,107,542** | **100.00%** |
| | ===== | ========== | ======= |

d) Directors Holdings as at 31 December 2020

| Name | No Of Shares | Percentage |
|---|---|---|
| Dr. Wilfred D. Kiboro | 11,878,002 | 0.923% |
| Mr. Titus Muya | 72,998,502 | 5.672% |
| Dr. Lazarus Muema | 130,000 | 0.010% |
| Dr. Ruth Waweru | 190,000 | 0.015% |
| Mr. Francis Mungai | 1,620,404 | 0.126% |
| | **86,819,908** | **6.745%** |
| | ======== | ===== |

# Financial Statements
For the Year Ended 31 December 2020

# REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of Family Bank Limited (the "Bank" or the "Company") and its subsidiary, Family Bank Insurance Agency Limited (together the "Group").

## PRINCIPAL ACTIVITIES

The Group provides an extensive range of banking, financial and related services and is licensed under the Banking Act. The principal activity of the subsidiary is to provide bancassurance services through insurance agency services and is licensed by Insurance Regulatory Authority .

## BUSINESS REVIEW

The Covid-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

This year has been a particularly challenging period for the Group, our customers, and the economy at large due to the Covid-19 pandemic. The group's performance has remained resilient amidst reduced non-funded income from waiver of digital fees and increase in loan loss provisions due to significant increase in credit risk.

The Group recorded a significantly improved performance from a total comprehensive income of Sh 1.035B in 2019 to Sh1.15B in 2020. The Business model review and process refinement undertaken in the last two years is now generating the envisaged efficiencies and business growth. Net interest income increase by 29% corresponding to net increase in the loans and advances which increased by 12% while customer deposits increased by 20%. Net fees and commission expense reduced by 8% attributed to the government incentive to waive fees and commissions on transactions to cushion the economy from the effects of Covid-19.

The following is the summary of the results for the year ended 31 December 2020:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Profit before taxation | 1,440,653 | 1,422,829 | 1,325,613 | 1,352,237 |
| Taxation | (278,133) | (472,993) | (249,566) | (456,282) |
| **Profit for the year** | **1,162,520** | **949,836** | **1,076,047** | **895,955** |
| Other Comprehensive income (net of tax) | (13,777) | 85,800 | (13,777) | 85,800 |
| Total comprehensive income | **1,148,743** | **1,035,636** | **1,062,270** | **981,755** |
| | ======= | ======== | ======== | ====== |

## DIVIDEND

The directors do not recommend payment of a dividend in respect of the year ended 31 December 2020 (2019: 0.24 per share).

## DIRECTORS

The Directors who held office at the date of this report are set out on pages 11 to 13

# REPORT OF THE DIRECTORS

**EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD**

There were no material subsequent events after the reporting date requiring disclosure in these financial statements as at the date of the financial statement approval.

**STATEMENT AS TO DISCLOSURE TO THE GROUP'S AUDITOR**

With respect to each director at the time this report was approved:

i) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and

ii) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**TERMS OF APPOINTMENT OF THE AUDITOR**

PricewaterhouseCoopers LLP continue in office in accordance with the Group's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

**By order of the Board**

**Eric Murai**
Company Secretary
31 March 2021

# 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 financial position of the Group and Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Group and Company keeps proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. selecting suitable accounting policies and then apply them consistently; and
iii. making judgments and accounting estimates that are reasonable in the circumstances

Having assessed the Group's and 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 Group's and 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 responsibility.

Approved by the board of directors on 31 March 2021 and signed on its behalf by:

**Dr. Wifred D. Kiboro**
Chairman, Board of Directors

**Rebecca Mbithi**
Managing Director & CEO

# Independent auditor's report to the shareholders of Family Bank Limited

## Report on the audit of the financial statements

### *Our opinion*

We have audited the accompanying financial statements of Family Bank Limited (the 'Bank' or 'Company') and its subsidiary (together, the Group) set out on pages 52 to 127, which comprise the consolidated statement of financial position at 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2020, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Family Bank Limited give a true and fair view of the financial position of the Group and the Company at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands*
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Partners: E Kerich B Kimacia  M Mugasa  A Murage  F Muriu  P Ngahu  R Njoroge  S O Norbert's  B Okundi  K Saiti

*Key audit matters (continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Expected credit losses on loans and advances at amortised cost***<br><br>Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.<br><br>The policies for estimating ECL are explained in notes 3 (a) of the financial statements.<br><br>The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:<br><br>• The assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments;<br><br>• The judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and<br><br>• The relevance of forward-looking information used in the models;<br><br>Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit. | Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:<br><br>• We reviewed the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9;<br><br>• We tested how the Group extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Group's IT system and the respective customer files;<br><br>• We reviewed judgments applied in the staging of loans and advances;<br><br>• We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis;<br><br>• For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports;<br><br>• We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures;<br><br>• For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information;<br><br>• We reviewed and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate. |

# Independent auditor's report to the shareholders of Family Bank Limited (continued)

### *Other information*

The other information comprises Corporate information, Directors' report and Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Integrated Report and Financial Statements which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Integrated Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### *Responsibilities of the directors for the financial statements*

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# Independent auditor's report to the shareholders of Family Bank Limited (continued)

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

- 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 and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group and Company's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group and Company's financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

In our opinion the information given in the Directors' Report on pages 45 and 46 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi
31 March 2021

FCPA Richard Njoroge, Practising certificate No. 1244
Signing partner responsible for the independent audit

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Consolidated 2020 Kshs 000 | Consolidated 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|---|
| Interest income | 6(a) | 9,386,726 | 7,515,819 | 9,386,726 | 7,515,819 |
| Interest expense | 7 | (2,595,897) | (2,253,464) | (2,615,024) | (2,264,387) |
| **Net interest income** | | **6,790,829** | **5,262,355** | **6,771,702** | **5,251,432** |
| Fee and commission income | 8(a) | 1,939,756 | 2,067,517 | 1,939,756 | 2,067,517 |
| Fee and commission expense | 8(b) | (273,643) | (260,969) | (273,643) | (260,969) |
| Net fees and commission income | | 1,666,113 | 1,806,548 | 1,666,113 | 1,806,548 |
| Investment income | 6(b) | 119,375 | 164,423 | 119,375 | 164,423 |
| Net trading income | | 341,362 | 390,760 | 341,362 | 390,760 |
| Other income | 8(c) | 400,185 | 343,305 | 232,207 | 228,032 |
| **Operating income** | | **9,317,864** | **7,967,391** | **9,130,759** | **7,841,195** |
| Operating expenses | 9 | (5,648,228) | (5,261,653) | (5,576,163) | (5,206,049) |
| Credit impairment losses | 16 (b) | (2,228,983) | (1,282,909) | (2,228,983) | (1,282,909) |
| **Profit before taxation** | | **1,440,653** | **1,422,829** | **1,325,613** | **1,352,237** |
| Income tax expense | 11 | (278,133) | (472,993) | (249,566) | (456,282) |
| **Profit for the year** | | **1,162,520** | **949,836** | **1,076,047** | **895,955** |
| **Other comprehensive income** | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | |
| Gain on revaluation of properties (net of tax) | | - | 85,800 | - | 85,800 |
| *Items that may be reclassified subsequently to profit or loss* | | | | | |
| Fair value loss on debt financial assets at fair value through other comprehensive income (net of tax) | | (13,777) | - | (13,777) | - |
| **Total other comprehensive income** | | (13,777) | 85,800 | (13,777) | 85,800 |
| **Total comprehensive income for the year** | | **1,148,743** | **1,035,636** | **1,062,270** | **981,755** |
| Earnings per share (basic and diluted) (Shs) | 12 | 0.90 | 0.74 | 0.84 | 0.80 |

# STATEMENTS OF FINANCIAL POSITION

| | Notes | Consolidated 2020 Kshs 000 | Consolidated 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with CBK | 13 | 8,879,521 | 6,961,324 | 8,879,521 | 6,961,324 |
| Balances due from banking institutions | 14(a) | 819,406 | 2,779,374 | 819,406 | 2,779,374 |
| Government securities: | | | | | |
| At amortised cost | 15 | 8,901,395 | 8,187,378 | 8,901,395 | 8,187,378 |
| At fair value through profit or loss | 15 | 1,066,797 | 1,662,515 | 1,066,797 | 1,662,515 |
| At fair value through other comprehensive income | 15 | 7,033,006 | - | 7,033,006 | - |
| Corporate bonds at amortised cost | 17 | - | 399,847 | - | 399,847 |
| Other investments | 19 | 126,804 | 1,385,077 | 126,804 | 1,385,077 |
| Current income tax | | 27,904 | 19,423 | - | - |
| Other assets | 18 | 1,421,545 | 1,362,923 | 1,394,454 | 1,342,492 |
| Loans and advances to customers | 16 | 56,579,798 | 50,594,439 | 56,579,798 | 50,594,439 |
| Investment in subsidiary | 20 | - | - | 1,000 | 1,000 |
| Investment properties | 21 | 23,400 | 23,400 | 23,400 | 23,400 |
| Property and equipment | 22 | 2,211,001 | 2,509,996 | 2,209,891 | 2,507,573 |
| Intangible assets | 23 | 399,355 | 486,843 | 384,289 | 467,573 |
| Right of use of assets | 33 | 1,483,603 | 1,520,371 | 1,483,603 | 1,520,371 |
| Prepaid operating leases | 24 | 134,583 | 139,220 | 134,583 | 139,220 |
| Deferred income tax | 28 | 1,552,679 | 885,543 | 1,552,679 | 885,542 |
| **TOTAL ASSETS** | | **90,660,797** | **78,917,673** | **90,590,626** | **78,857,125** |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | | | |
| **LIABILITIES** | | | | | |
| Customer deposits | 25 | 69,756,770 | 58,054,485 | 70,125,378 | 58,275,571 |
| Balances due to banking institutions | 14(b) | 451,741 | 56,906 | 451,741 | 56,906 |
| Current income tax | | 126,975 | 290,095 | 126,975 | 290,095 |
| Provisions | 27(a) | 587,877 | 424,606 | 587,877 | 424,606 |
| Other liabilities | 27(b) | 1,655,823 | 1,949,516 | 1,512,866 | 1,877,526 |
| Borrowings | 26 | 3,017,148 | 3,954,679 | 3,017,148 | 3,954,679 |
| Lease liability | 33 | 1,607,076 | 1,569,539 | 1,607,076 | 1,569,539 |
| Deferred income tax | 28 | 1,126 | 1,421 | - | - |
| **TOTAL LIABILITIES** | | **77,204,536** | **66,301,247** | **77,429,061** | **66,448,922** |
| **SHAREHOLDERS' FUNDS** | | | | | |
| Share capital | 29 | 1,287,108 | 1,287,108 | 1,287,108 | 1,287,108 |
| Share premium | | 5,874,662 | 5,874,662 | 5,874,662 | 5,874,662 |
| Revaluation surplus | | 278,424 | 278,424 | 278,424 | 278,424 |
| Fair value reserve | | (13,777) | - | (13,777) | - |
| Retained earnings | | 6,029,844 | 5,176,232 | 5,735,148 | 4,968,009 |
| **TOTAL SHAREHOLDERS' FUNDS** | | **13,456,261** | **12,616,426** | **13,161,565** | **12,408,203** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | **90,660,797** | **78,917,673** | **90,590,626** | **78,857,125** |

The financial statements on pages 52 to 127 were approved for issue by the board of directors on 31 March 2021 and were signed on its behalf by:

**Mr. Lazarus Muema**
Director

**Rebecca Mbithi**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital Kshs 000 | Share premium Kshs 000 | Revaluation surplus Kshs 000 | Fair value reserves Kshs 000 | Retained earnings Kshs 000 | Statutory reserve Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | | |
| **At start of year** | **1,287,108** | **5,874,662** | **192,624** | **-** | **4,226,396** | **-** | **11,580,790** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | - | - | - | - | 949,836 | - | 949,836 |
| **Other comprehensive income** | | | | | | | |
| Revaluation gain on land and buildings | - | - | 85,800 | - | - | - | 85,800 |
| **At 31 December 2019** | **1,287,108** | **5,874,662** | **278,424** | **-** | **5,176,232** | **-** | **12,616,426** |
| | ======== | ======== | ======== | ======= | ========= | ======== | ========= |
| **Year ended 31 December 2020** | | | | | | | |
| **At start of year** | 1,287,108 | 5,874,662 | 278,424 | - | 5,176,232 | - | 12,616,426 |
| **Comprehensive income** | - | - | - | - | | - | - |
| Profit for the year | - | - | - | - | 1,162,520 | - | 1,162,520 |
| **Other comprehensive income** | | | | | | | |
| Fair value loss on financial assets at fair value through other comprehensive income (net of tax) | - | - | | (13,777) | - | - | (13,777) |
| **Total comprehensive income** | **-** | **-** | **-** | **(13,777)** | **1,162,520** | **-** | **1,148,743** |
| Dividend paid | - | - | - | - | (308,908) | - | (308,908) |
| **At 31 December 2020** | **1,287,108** | **5,874,662** | **278,424** | **(13,777)** | **6,029,844** | **-** | **13,456,261** |
| | ======== | ======== | ======== | ======= | ======== | ======== | ========= |

# BANK STATEMENT OF CHANGES IN EQUITY

| | Share capital Kshs 000 | Share premium Kshs 000 | Revaluation surplus Kshs 000 | Fair value reserve Kshs 000 | Retained earnings Kshs 000 | Statutory reserve Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | | |
| **At start of year** | 1,287,108 | 5,874,662 | 192,624 | - | 4,072,054 | - | 11,426,448 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | - | - | - | - | 895,955 | - | 895,955 |
| **Other comprehensive income** | | | | | | | |
| Revaluation gain on land and buildings | | | 85,800 | | | | 85,800 |
| **At 31 December 2019** | **1,287,108** | **5,874,662** | **278,424** | **-** | **4,968,009** | **-** | **12,408,203** |
| | ======== | ======== | ======== | ======= | ======== | ======= | ======== |
| **Year ended 31 December 2020** | | | | | | | |
| **At start of year** | 1,287,108 | 5,874,662 | 278,424 | - | 4,968,009 | - | 12,408,203 |
| **Comprehensive income** | - | - | - | - | | - | |
| Profit for the year | - | - | - | - | 1,076,047 | - | 1,076,047 |
| **Other comprehensive income** | | | | | - | | |
| Fair value loss on financial assets at fair value through other comprehensive income (net of tax) | - | - | | (13,777) | - | - | (13,777) |
| **Total comprehensive income** | **-** | **-** | **-** | **(13,777)** | **1,076,047** | **-** | **1,062,270** |
| Dividend paid | - | - | - | - | (308,908) | - | (308,908) |
| **At 31 December 2020** | **1,287,108** | **5,874,662** | **278,424** | **(13,777)** | **5,735,148** | **-** | **13,161,565** |
| | ======== | ======== | ======== | ======= | ======== | ======= | ======== |

# STATEMENTS OF CASH FLOWS

| | Note | Consolidated 2020 Kshs 000 | Consolidated 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash used in operations | 31(a) | (5,342,770) | (1,992,679) | (5,361,166) | (1,990,113) |
| Interest received | | 9,386,726 | 7,515,819 | 9,386,726 | 7,515,819 |
| Interest paid | | (2,595,897) | (2,253,464) | (2,615,024) | (2,264,387) |
| tax paid | | (1,113,031) | (11,977) | (1,075,689) | (3,620) |
| Net cashflows from operating activities | | 335,028 | 3,257,699 | 334,847 | 3,257,699 |
| **Cash flows from investing activities** | | | | | |
| Purchase of intangible assets | 23 | (36,283) | (39,291) | (36,283) | (39,291) |
| Purchase of property and equipment | 22 | (209,793) | (98,892) | (209,612) | (98,892) |
| Net cash flows from investing activities | | (246,076) | (138,183) | (245,895) | (138,183) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | 26 | 7,284 | - | 7,284 | - |
| Repayment of borrowing | 26 | (944,815) | (1,072,579) | (944,815) | (1,072,579) |
| Payment of principal portion of lease liabilities | 33 | (553,604) | (399,784) | (553,604) | (399,784) |
| Dividends paid | | (308,908) | - | (308,908) | - |
| **Net cash flows from financing activities** | | **(1,800,043)** | **(1,472,363)** | **(1,800,043)** | **(1,472,363)** |
| (Decrease)/ increase in cash and cash equivalents | | (1,711,091) | 1,647,153 | (1,711,091) | 1,647,153 |
| Cash and cash equivalents at start of the year | | 6,117,201 | 4,470,048 | 6,117,201 | 4,470,048 |
| **Cash and cash equivalents at end year** | 31(b) | **4,406,110** | **6,117,201** | **4,406,110** | **6,117,201** |

# NOTES

### 1. General information

Family Bank Limited and its subsidiary Family Insurance Agency Limited are both incorporated in Kenya under the Companies Act and is domiciled in Kenya.

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

### 2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(i) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

(i) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires the directors to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**a) Basis of preparation (continued)**
**(iii) Changes in accounting policies and disclosures**

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the bank.

***i) New standards, amendments and interpretations adopted by the group***

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 january 2020:

- Definition Of Material – Amendments To Ias 1 And Ias 8
- Definition Of A Business – Amendments To Ifrs 3
- Interest Rate Benchmark Reform – Amendments To Ifrs 9, Ias 39 And Ifrs 7
- Revised Conceptual Framework For Financial Reporting

The bank also elected to adopt the following amendments early:

- Annual Improvements To Ifrs Standards 2018-2020 Cycle.

Ifrs 9 Financial Instruments – Clarifies Which Fees Should Be Included In The 10% Test For Derecognition Of Financial Liabilities. This Change Did Not Have An Impact On The Group's Financial Statements.

Ifrs 16 Leases – Amendment Of Illustrative Example 13 To Remove The Illustration Of Payments From The Lessor Relating To Leasehold Improvements, To Remove Any Confusion About The Treatment Of Lease Incentives. This Change Did Not Have An Impact On The Group's Financial Statements.

- Covid-19-Related Rent Concessions – Amendments To Ifrs 16

There Were No Rent Concessions Obtained By The Group In The Year.

- Interest Rate Benchmark Reform – Amendments To Ifrs 9, Ias 39 And Ifrs 7.

This did not have an impact on the group's financial statements as it does not have hedging contracts.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**a) Basis of preparation (continued)**
**(iii) Changes in accounting policies and disclosures (continued)**

***ii) New standards, amendments and interpretations issued but not yet effective***

The below new accounting standards and interpretations have been published that are not mandatory for 31 december 2020 reporting periods and have not been early adopted by the group.

| Title | Key requirements | Effective Date |
|---|---|---|
| Classification of Liabilities as Current or Non-current – Amendments to IAS 1 | The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.<br><br>The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to<br><br>determine classification and for some liabilities that can be converted into equity.<br><br>They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. | 1 January 2022 [deferred to 1 January 2023] |
| Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16 | The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.<br><br>Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. | 1 January 2022 |
| Reference to the Conceptual Framework – Amendments to IFRS 3 | Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date. | 1 January 2022 |
| Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37 | The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. | 1 January 2022 |

# NOTES (Continued)

**2.Significant accounting policies (continued)**
**a) Basis of preparation (continued)**
**(iii) Changes in accounting policies and disclosures (continued)**

***ii) New standards, amendments and interpretations issued but not yet effective (continued)***

| Title | Key requirements | Effective Date |
|---|---|---|
| Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 | The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.<br>The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non- monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).<br>Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply<br>prospectively.<br><br>** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method. | n/a ** |

None of these standards are expected to have a significant impact on the Group

**b) Consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank. 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.

The Bank considers all relevant facts and circumstances in assessing whether or not the company'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.

NOTES (Continued)

**2. Significant accounting policies (continued)**

**b) Consolidation (continued)**

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary.

Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company 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 recognised directly in equity and attributed to owners of the company.

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 IFRS 9: Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**c) Investment in subsidiary**

Investment in subsidiary companies are stated at cost less impairment loss where applicable in the separate accounts of the Bank.

**(d) Interest income and expense recognition**

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

i. Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
ii. Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

## NOTES (Continued)

**2. Significant accounting policies (continued)**

**e) Fee and commission income**

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees and sales commissions are recognised as the performance obligations under the related services' contracts are met. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan appraisal fees are recognised as revenue when the appraisal has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

**f) Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences

**g) Foreign currency translation**
*i)Functional and presentation currency*

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the Functional and Presentation currency of the subsidiary . For each entity in the Group, the Group determines the functional currency and items included in the financial statements of each entity are measured using that Functional currency.

**Transactions and balances**

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.The Group does not have a foreign operation.

NOTES (Continued)

**2. Significant accounting policies (continued)**

**h) Financial assets and liabilities**

The Group adopted IFRS 9 on 1 January 2018. The objective of IFRS 9 was to establish principles that would present relevant and useful information to users of financial statements in relation to:

i) Classification of financial instruments;
ii) Initial and subsequent measurement of financial instruments;
iii) Modification and derecognition of financial instruments; and
iv) Impairment of financial assets.

The Group determines the appropriate classification of its financial assets at initial recognition. It recognises a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument.

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss ("FVTPL");
- financial assets measured at amortised cost; and
- financial assets at fair value through other comprehensive income ("FVTOCI");

Financial assets (except those carried at fair value through profit or loss) are initially recognised in the financial statements at fair value plus transaction costs. Loans and receivables and investments held at amortised cost are carried at amortised cost using the effective interest rate ("EIR") method.

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in profit and loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets at fair value through other comprehensive income are recognised in other comprehensive income and cumulated in a separate reserve in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss for debt instruments or recycled through retained earnings for equity instruments.

**i) Financial assets**

***Recognition and Subsequent measurement***

**a) Debt instruments**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss, the Group's financial asset is classified on the basis of both;

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowances. Interest income from financial assets is included in "interest income" using the effective interest rate method.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**h) Financial assets and liabilities (continued)**
**i) Financial Assets (continued)**

***Recognition and Subsequent measurement (continued)***

**a) Debt instruments(continued)**

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net gains on disposal of financial instruments". Interest income from the instruments is included in "interest income" using the effective interest rate.

- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises. Interest income and credit related income from these financial assets is included in "interest income" using the effective interest rate method.

**(b) Recognition and subsequent measurement**

**Group's business model:** The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

**Contractual characteristics of a financial asset / SPPI:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

**Impairment**: The Group assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES (Continued)

**2. Significant accounting policies (continued)**

**h) Financial assets and liabilities (continued)**

**c) Modification of loans**

The Group may sometimes renegotiate or otherwise modify the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan - Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. Accordingly, the date of the modification is treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the criteria for the recognition of lifetime expected credit losses is met.

However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit- impaired at initial recognition. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

**d) Derecognition other than on a modification**

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
ii) Is prohibited from selling or pledging the assets; and
iii) Has an obligation to remit any cash it collects from assets without material delays.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

**e) Repossessed collateral**

The Group makes arrangement to dispose repossessed collateral to the market quickly and at the best price. Disposal processes commences immediately when the asset becomes ready for sale. While assets are not being disposed of, the Group endeavors to keep costs relative to the upkeep and maintenance of the assets to a minimum. Possessed moveable assets are stored at reputable storage yards approved by the Group or within Group premises.

The Group is not in asset and property trading/management, and thus does not take positions on the market trends.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**h) Financial assets and liabilities (continued)**

**ii) Financial Liabilities**

The Group's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

**a) Classification and subsequent measurement**

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

**b) Derecognition of financial liabilities**

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**c) Financial guarantee contracts and loan commitments**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument, other than for staff facilities. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan to the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

**i) Offsetting financial instruments**

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

NOTES (Continued)

**2. Significant accounting policies (continued)**

**j) Borrowings**

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds

**k) Property and equipment**

Property and equipment are stated at cost (or as professionally revalued from time to time as in the case of buildings) less accumulated depreciation and any accumulated impairment losses. Any surplus arising on revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve account. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. The Group's policy is to professionally revalue freehold land and buildings at least once every five years. The last valuation was done on 31 December 2019. The valuation considered the highest and best use of the property. The basis of valuation for freehold land and buildings is open market value.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset or the revalued amounts, to its residual values over its estimated useful life as follows:

| | |
|---|---|
| Buildings | 2.50% |
| Fixtures, fittings and equipment | 12.50% |
| ATM Machines | 16.70% |
| Motor vehicles | 20% |
| Computers | 20% |

Freehold land is not depreciated.
The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation charge to profit and loss is based on the carrying amounts of the property and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation surplus to retained earnings.

**l) Intangible assets**

Intangible assets comprise acquired computer software license costs which are recognised on the basis of expenditure incurred to acquire and bring the specific software to use. These costs are amortised over estimated useful lives of three to ten years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. During development of these software products, direct costs such as the software development employee costs and an appropriate portion of relevant overheads are recorded as work in progress and amortised from the point at which the asset is ready for use.

Computer software development costs recognised as assets are amortised over an estimated useful life of three to eight years. Costs associated with the maintenance of computer software are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**l) Intangible assets (continued)**

amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**m) Investment properties**

Investment properties comprise land and 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.

**n) 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.

**o) Income tax**

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

**Current income tax**

The income 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred income tax**

Deferred income 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.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**o) Income tax (continued)**
**Deferred Income tax (continued)**

Deferred income tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will. the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

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

**Current and deferred income tax for the year**

Current and deferred income 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.

**p) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**q) Contingent liabilities**

Provisions for legal claims 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 will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable, or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

**r) Statutory reserve**

Further to the credit loss allowances computed in line with international financial reporting standards, the Central Banks have, in their prudential guidelines, specified certain minimum loan loss provisions to be held against various categories of loans and advances. Where credit loss allowances computed in line with the Central Bank regulations exceed those computed on the same loan balances under International financial reporting standards, the excess is recognised as a regulatory loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is non-distributable.

**s) Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

## NOTES (Continued)

**2. Significant accounting policies (continued)**
**s) Leases (continued)**

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

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

**t) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank of Kenya and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**u) Employee benefit costs**

The Group operates a defined contribution scheme for all its employees. The scheme is administered by an independent investment management company and is funded by contributions from both the group and employees.

The Group and its employees also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.

The Group's contributions in respect of retirement benefit costs are charged to the profit and loss in the period to which they relate. Employee entitlement to leave not taken is charged to profit or loss as it accrues.

**v) Sale and repurchase agreements**

Securities sold to the Central Bank of Kenya subject to repurchase agreements ('repos') are retained in the financial statements under government securities and the counterparty liability is included in advances from Central Bank of Kenya. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

**w) Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (Managing Director and CEO). Management then allocates resources to and assesses the performance of the operating segments of the Group.

NOTES (Continued)

**2. Significant accounting policies (continued)**
**w) Operating segments (continued)**

- Segment result is segment revenue less segment expenses.
- Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis.
- Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

**x) Comparatives**

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

**3. Critical accounting estimates and judgements**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

**Critical accounting estimates and assumptions**

**(a) Measurement of expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

## NOTES (Continued)

**3. Critical accounting estimates and judgements (continued)**
**(a) Measurement of expected credit loss allowance (continued)**

**Covid 19 impact on impairment losses on loans and advances**

The Covid-19 pandemic has resulted in a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.
The most substantial impact on the Bank relates to credit risk due to increased allowances for credit losses in the year. The increased credit risk is majorly because of:

- Declining performance in certain sectors of the economy e.g., hospitality and education sectors hence increased possibility of default.
- Downward changes in credit ratings (both internal and external)
- Increased time to realization of collateral for some portfolios and sectors as well as reassessment of the quality of collateral
- Increased days past due for loans issued
- Macroeconomic factors that have impacted the forward-looking estimates
- Increased modification losses because of the restructurings.
- Increased write offs of the loans that we are unlikely to recover.

The estimation of impairment losses on loans and advances include an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models have used the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Given the deteriorating macroeconomic environment, specific increases in PDs and LGDs were made to appropriately capture the Covid-19 environment.

As the outbreak continues to progress, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk.

The quantitative impact of Covid-19 on impairment allowances was an increase of Kshs 1,616,304,000 highlighted as below:

| | Kshs 000 |
|---|---|
| Effect of economic scenario overlay | 434, 981 |
| Effect of extension of realisation of colleteral | 342,070 |
| Effect on high risk portfolios/customers | 839,253 |
| | **1,616,304** |
| | ========= |

**b) Income taxes**

The Group is subject to income taxes in Kenya. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

**Critical judgements in applying the entity's accounting policies**

In the process of applying the Group's accounting policies, management has made judgments in determining:

- Whether, and how much, to provide for the potential exposure of each litigation and/or claim, disclose or not disclose certain exposures;
- Whether the Bank is reasonably certain to exercise extension of its leases;
- Whether rent concessions result to new leases or a discount on the existing leases;
- The classification of joint arrangements;
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding; and
- The classification of financial assets.

NOTES (Continued)

### 4. Financial Risk Management Disclosures

The Group defines risk as the possibility of losses being incurred or profits foregone, which may be caused by internal or external factors. The Group aims to achieve an appropriate balance between risk and return and minimise the potential adverse effects of the Group's financial performance.

The most important type of risks to which the Group are exposed to are financial risks which include:

a) Credit risk
b) Liquidity risk
c) Market risk

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management committee comprising of three non-executive directors to assist in the discharge of this responsibility. The Board has also established , Credit Committee and Board Audit Committee. The Board Risk Management Committee is responsible for developing and monitoring risk management policies in their specified areas. All Board Committee are comprised of non- executive Board Members. At Management Level, the Board has established various committee which comprise of Assets and Liabilities Committee, Management Risk Committee as well as Executive Committee that deliberates on key risk issues impacting the Bank. and report regularly to the Board of Directors on their activities.

The Board provides written principles for overall risk management as well as written policies covering specific risk areas. The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 best market practices. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Risk and Compliance Committee 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 Group. This committee
is assisted in these functions by the Assurance Function. The Assurance Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

### 4.1 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. Credit risk arises principally from the Group's loans and advances to customers and other banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances.

Credit risk is the single largest risk for the Group's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

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

**Management of credit risk**

The Board of Directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three non-executive directors and two executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management.

The committee assisted by the credit department is responsible for the management 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 delegated to the head of credit and the credit committee while larger facilities require approval by the board of directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.

## NOTES (Continued)

**4. Financial risk management and disclosures (continued)**
**4.1 Credit risk (continued)**
**Managemet of credit risk (continued)**

- Developing and maintaining the group's risk gradings 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.
- Varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews by credit department.
- 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 group credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the group in the management of credit risk.

**Credit risk measurement**

In measuring credit risk of loans and advances to customers, the Group takes into account the following factors:

- The probability of default: this is the possibility of the customer failure to pay over the stipulated period in the contract.
- Current exposure on the borrower and the likely future development from which the Group derives the exposure at default.
- Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral.

The Group assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer, the Group takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the Group's daily operational management and closely aligned to the Central Bank of Kenya loan classifications.

The impairment allowances on loans and advances computed through the Group's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IFRS 9.

**4.1.1 Loans and advances**

The Group align the classification criteria for assets that are past due or impaired in line with regulatory guidelines. In the determination of the classification of accounts, performance is the primary consideration. The classification of an account reflects a judgment about risks of default and loss associated with the credit facility. The classification process establishes a consistent approach to problem recognition, problem labeling, remedial action and the initiation of credit write-offs.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

***(i) Significant Increase in credit risk (SICR)***

The Group's decision on whether to recognize 12-month or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is performed at each reporting date. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration.

The Group applies qualitative and quantitative criteria for stage classification and for its forward and backward credit risk migration.

Quantitative Criteria

The quantitative criteria is based on relative and not absolute changes in credit quality driven by counterparty ratings and days past due.

The Group considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

***i) Significant Increase in credit risk (SICR) (continued)***

The appropriateness of using changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognised depends on the specific facts and circumstances. Risk of default occurring over the next 12 months is not a suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

1) The financial instruments only have significant payment obligations beyond the next 12 months;
2) Changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
3) Changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

The Group's quantitative credit grading is similar to CBK's prudential guidelines credit grading and is as per the table below:

| IFRS 9 credit staging / grading | CBK PG/04 Guidelines | Days past due |
|---|---|---|
| 1 | Normal | Up to date and in line with contractual agreements or within 30 days' arrears |
| 2 | Watch | 31 to 90 days overdue |
| 3 | Substandard | 91 to 180 days overdue |
| | Doubtful | 181 – 365 days overdue |
| | Loss | Over 365 overdue |

Qualitative Criteria

In addition to the above, the Group considers other qualitative factors in determining the classification above and may accelerate the classification of credit facilities where deemed appropriate. They include but not limited to:

1. Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
2. Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
3. Changes in the Group's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).
4. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).

**4. Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

***i) Significant Increase in credit risk (SICR) (continued)***

5. Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default; or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
6. Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).
7. Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

***ii) Definition of default and credit-impaired assets***

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty.
These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

90-day rebuttable presumption

The Group assumes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

***iii) Measuring expected credit loss – inputs, assumptions and estimation techniques***

"ECL" is defined as the amount on a probability-weighted basis as the difference between the cash flows that are due to the Group in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive.
ECL is formula driven, i.e. ECL= PD x LGD x EAD (discounted using the EIR)
ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given

Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12-month PD) or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support.
- LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans.

The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and a credit grade. This is supported by a historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortizing products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/ refinance assumptions are also incorporated.
- For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/ book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by the industry segmentation.

NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

*iii) Measuring expected credit loss – inputs, assumptions and estimation techniques (continued)*

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

*Forward-looking information incorporated in the ECL models*

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by industry/portfolio segmentation.

Forecasts of the base economic scenario and the possible bearing and bullish scenarios along with scenario weightings are prepared by an expert economic team. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to an inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

The key macro-economic factors that were evaluated by the Group and deemed to be most correlated to the historical and forecasted default statistics include interest and foreign exchange rates, Inflation, GDP growth and population statistics.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness annually.

*Grouping of instruments for losses measured on a collective basis*

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the group to be statistically credible. In concluding on how to group its exposures, the Group considered its approach to credit risk management and how aspects such as regulatory compliance and internal concentration limits are managed. As such, the Group grouped its loans and advances at amortised cost based on industries such as Manufacturing, Individuals, Finance and Insurance, Building and construction among others.

There were no exposures deemed to be individually significant to merit individual assessment, other than those in Stage 3. The appropriateness of groupings is monitored and reviewed on a periodic basis.

*Write-off policy*

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit or loss.

NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

*Write-off policy (continued)*

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 loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

Loans and advances at amortised cost less than 30 days past due date are not considered to have experienced SICR, unless other information is available to indicate the contrary.

The Group structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate.

The Group takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. Collateral held for other financial assets other than loans and advances depends on the nature of the instrument.

The primary purpose of acceptances, letters of credit and guarantees is to ensure funds are available to a customer as required. Guarantees and standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit which are written undertakings by the group on behalf of a customer authorising a third party to draw drafts on the group up to a stipulated amount under specific terms and conditions are collateralised by the underlying goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers.

*Risk limit control and mitigation policies*

Portfolio management is an integral part of the credit risk management process that enables the Group and Company to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. The responsibility for portfolio management lies primarily with business units, with oversight and review by credit risk management while the Board Credit Committee is responsible for credit approvals. The Group's portfolio management plan entails:

- The setting up of portfolio targets and concentrations.
- Establishing target market risk acceptance criteria and key success factors. These are subject to regular review to ensure their continued appropriateness.
- Monitoring the portfolio risk profile, risk-adjusted returns, risk concentrations, economic market and competitive data.
- Identifying and analysing trends and concentrations that could affect the risk and performance of the portfolio.
- Stress testing of the portfolio for the purpose of measuring potential losses.

## NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

*Risk limit control and mitigation policies (continued)*

| | Exposure 2020 Shs'000 | Exposure 2019 Shs'000 |
|---|---|---|
| **On-Balance sheet items** | | |
| Balances with Central Bank of Kenya | 4,841,075 | 3,566,591 |
| Balances due from other banking institutions | 819,407 | 2,779,374 |
| Government securities at amortised cost | 8,901,395 | 8,187,378 |
| Goverment securities at fair value through profit and loss | 1,066,797 | 1,662,515 |
| Goverment securities FVOCI | 7,033,006 | - |
| Loans and advances to customers | 56,579,798 | 50,594,439 |
| Corporate bonds | - | 399,847 |
| Other investments | 126,804 | 1,385,077 |
| Other assets | 1,278,799 | 1,213,299 |
| | **80,647,081** | **69,788,520** |
| **Off-balance sheet items** | | |
| Guarantees and letters of credit | 8,168,692 | 5,615,640 |
| | **88,815,773** | **75,404,160** |

The table above represents the worst-case scenarios of credit exposure for 31 December 2020 and 31 December 2019, without taking into account any collateral held or other credit enhancements attached.

For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 66% (2019 - 72 %) of the total maximum exposure.

While collateral is an important mitigant to credit risk, the Group's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. 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 loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

# NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

The table below shows the total gross loans and allowances including interest accrued on fully impaired loans and advances:

| Loans and advances to customers | Kshs 000 | Kshs 000 |
|---|---|---|
| **Gross loans and advances to customers** | 62,594,080 | 54,379,738 |
| Of which stage 1 and 2 | 51,909,848 | 46,588,320 |
| Of which stage 3 | 10,684,232 | 7,791,418 |
| **Expected credit loss provisions** | 6,014,282 | 3,785,299 |
| Of which stage 1 and 2 | 958,160 | 922,457 |
| Of which stage 3 | 5,056,122 | 2,862,842 |
| **Net loans and advances to customers** | 56,579,798 | 50,594,439 |
| Of which stage 1 and 2 | 50,951,688 | 45,630,160 |
| Of which stage 3 | 5,628,110 | 4,964,279 |

The subsequent tables within this note include the movement in gross loans and allowances excluding interest accrued on fully impaired loans and advances of Kshs 1.29 billion (2019: Kshs 664 million)

## NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

The following table shows a reconciliation from the opening to the closing balance of the total gross loans.

| 2020 | Term loans Kshs 000 | Mortgage Kshs 000 | Overdraft and credit cards Kshs 000 | Total Kshs 000 | Off Balance Sheet Kshs 000 |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| **Gross loans and advances to customers** | 51,721,047 | 6,829,901 | 2,749,778 | 61,300,726 | 1,566,784 |
| Of which stage 1 and 2 | 44,944,220 | 4,833,738 | 2,131,890 | 51,909,848 | 1,566,784 |
| Of which stage 3 | 6,776,827 | 1,996,163 | 617,888 | 9,390,878 | - |
| **Expected credit loss provisions** | 3,909,946 | 446,673 | 364,310 | 4,720,929 | 108,842 |
| Of which stage 1 and 2 | 819,466 | 37,484 | 101,210 | 958,160 | 108,842 |
| Of which stage 3 | 3,090,480 | 409,189 | 263,100 | 3,762,769 | - |
| **Net loans and advances to customers** | 47,811,102 | 6,383,228 | 2,385,468 | 56,579,798 | 1,457,942 |
| Of which stage 1 and 2 | 41,658,482 | 4,786,910 | 2,026,843 | 48,472,235 | 1,457,942 |
| Of which stage 3 | 6,152,620 | 1,596,318 | 358,625 | 8,107,563 | - |

| 2019 | Term loans Kshs 000 | Mortgage Kshs 000 | Overdraft and credit cards Kshs 000 | Total Kshs 000 | Off Balance Sheet Kshs 000 |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| **Gross loans and advances to customers** | 42,881,686 | 8,717,908 | 2,115,933 | 53,715,527 | 1,201,206 |
| Of which stage 1 and 2 | 37,248,718 | 7,713,970 | 1,625,632 | 46,588,320 | 1,201,206 |
| Of which stage 3 | 5,632,980 | 1,003,938 | 490,301 | 7,127,219 | - |
| **Expected credit loss provisions** | 2,478,379 | 390,346 | 252,364 | 3,121,089 | 77,436 |
| Of which stage 1 and 2 | 539,376 | 242,408 | 63,238 | 922,457 | 77,436 |
| Of which stage 3 | 1,861,211 | 147,938 | 189,127 | 2,198,632 | - |
| **Net loans and advances to customers** | 40,403,308 | 8,327,562 | 1,863,569 | 50,594,439 | 1,123,770 |
| Of which stage 1 and 2 | 37,111,026 | 7,471,562 | 1,562,395 | 46,144,983 | 1,123,770 |
| Of which stage 3 | 3,292,282 | 856,000 | 301,174 | 4,449,456 | - |

NOTES (Continued)

**4. Financial risk management disclousures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

The following table shows a reconciliation from the opening to the closing balance of the loss allowance

| **2020** | Stage 1 12-month ECL Kshs 000 | Stage 2 Lifetime ECL Kshs 000 | Stage 3 Lifetime ECL Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loss allowance as at 1 January 2020** | **520,145** | **402,672** | **2,198,272** | **3,121,089** |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | 76,772 | (26,557) | (50,216) | - |
| Transfer to stage 2 | (16,482) | 32,734 | (16,251) | - |
| Transfer to stage 3 | (17,272) | (89,292) | 106,563 | - |
| New financial assets originated or purchased | 475,991 | 159,070 | 1,188,835 | 1,823,896 |
| Financial assets that have been derecognised | (224,012) | (285,766) | (147,185) | (656,963) |
| Changes in models/risk parameters | (86,932) | (3,008) | 524,921 | 434,981 |
| Foreign exchange and other movements | (43,018) | 83,115 | (40,096) | - |
| Write-offs | | | (2,074) | (2,074) |
| **Loss allowance as at 31 December 2020** | **685,192** | **272,968** | **3,762,768** | **4,720,929** |

| **2019** | Stage 1 12-month ECL Kshs 000 | Stage 2 Lifetime ECL Kshs 000 | Stage 3 Lifetime ECL Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loss allowance as at 1 January 2019** | **418,311** | **181,371** | **1,902,708** | **2,502,390** |
| Changes in the loss allowance | | | | |
| Transfer to stage 1 | 125,047 | (55,635) | (69,412) | - |
| Transfer to stage 2 | (6,311) | 156,756 | (150,445) | - |
| Transfer to stage 3 | (13,388) | (57,236) | 70,624 | - |
| New financial assets originated or purchased | 319,606 | 182,222 | 212,194 | 714,022 |
| Financial assets that have been derecognised | (127,307) | (38,252) | (146,923) | (312,483) |
| Changes in models/risk parameters | (90,821) | 77,331 | 314,236 | 300,747 |
| Foreign exchange and other movements | (104,992) | (43,885) | 149,233 | 356 |
| Total charge | 520,145 | 402,672 | 2,282,215 | 3,205,032 |
| Write-offs | - | - | (83,943) | (83,943) |
| **Loss allowance as at 31 December 2019** | **520,145** | **402,672** | **2,198,272** | **3,121,089** |

## NOTES (Continued)

### 4. Financial risk management disclousures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

The following table shows a reconciliation from the opening to the closing balance of the total gross loans balance by class of financial instruments

| Term loans | Stage 1 Kshs 000 | Stage 2 Kshs 000 | Stage 3 Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loans and advances as at 1 January 2020** | **35,059,547** | **2,360,811** | **5,632,981** | **43,053,338** |
| Changes in the gross loans | | | | |
| – Transfer to stage 1 | 281,459 | (139,081) | (142,378) | - |
| – Transfer to stage 2 | (1,088,925) | 1,133,300 | (44,375) | - |
| – Transfer to stage 3 | (751,351) | (504,124) | 1,255,476 | - |
| Changes in models/risk parameters | (5,373,516) | (349,139) | (596,001) | (6,318,656) |
| New financial assets originated or purchased | 28,645,377 | 2,614,236 | 3,577,371 | 34,836,984 |
| Financial assets that have been derecognised | (15,322,678) | (1,621,696) | (2,906,247) | (19,850,621) |
| **Loans and advances as at 31 December 2020** | **41,449,913** | **3,494,307** | **6,776,827** | **51,721,047** |

| Mortgage loans | Stage 1 Kshs 000 | Stage 2 Kshs 000 | Stage 3 Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loans and advances as at 1 January 2020** | **6,600,656** | **1,113,314** | **1,003,938** | **8,717,908** |
| Changes in the gross loans | | | | |
| – Transfer to stage 1 | 6,039 | (4,040) | (1,999) | - |
| – Transfer to stage 2 | (182,931) | 188,038 | (5,107) | - |
| – Transfer to stage 3 | (56,376) | (254,937) | 311,313 | - |
| Changes in models/risk parameters | (619,721) | (89,269) | (16,960) | (725,950) |
| New financial assets originated or purchased | 2,697,509 | 21,139 | 737,269 | 3,455,917 |
| Financial assets that have been derecognised | (3,738,358) | (847,325) | (32,291) | (4,617,974) |
| **Loans and Advances as at 31 December 2020** | **4,706,818** | **126,920** | **1,996,163** | **6,829,901** |

# NOTES (Continued)

### 4. Financial risk management disclousures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

| Overdrafts and credit cards | Stage 1 Kshs 000 | Stage 2 Kshs 000 | Stage 3 Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loans and advances as at 1 January 2020** | **1,488,334** | **137,298** | **490,301** | **2,115,933** |
| Changes in the gross loans | | | | |
| – Transfer to stage 1 | 22,999 | (20,621) | (2,378) | - |
| – Transfer to stage 2 | (301,176) | 303,631 | (2,455) | - |
| – Transfer to stage 3 | (83,592) | (25,673) | 109,265 | - |
| Changes in models/risk parameters | (85,401) | 36,784 | (28,499) | **(77,116)** |
| New financial assets originated or purchased | 1,037,036 | 37,930 | 81,739 | **1,156,705** |
| Financial assets that have been derecognised | (357,268) | (58,391) | (30,085) | **(445,744)** |
| **Loans and Advances as at 31 December 2020** | **1,720,931** | **410,958** | **617,888** | **2,749,778** |

| Off Balance Sheet Facilities | Stage 1 Kshs 000 | Stage 2 Kshs 000 | Stage 3 Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Loans and advances as at 1 January 2020** | **1,201,206** | **-** | **-** | **1,201,206** |
| Changes in the gross loans | | | | |
| – Transfer to stage 1 | - | - | - | - |
| – Transfer to stage 2 | - | - | - | - |
| – Transfer to stage 3 | - | - | - | - |
| Changes in models/risk parameters | 8,860 | - | - | **8,860** |
| New financial assets originated or purchased | 1,278,043 | - | - | **1,278,043** |
| Financial assets that have been derecognised | (921,325) | - | - | **(921,325)** |
| **Loans and Advances as at 31 December 2020** | **1,566,784** | **-** | **-** | **1,566,784** |

## NOTES (Continued)

### 4. Financial risk management disclousures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

The following tables provide details of the changes in the loss allowance in the year for per class of financial instrument:

**Term loans**

| **Loss allowance – Loans and advances to customers at amortised cost** | Stage 1 12-month ECL KES 000s | Stage 2 Lifetime ECL KES 000s | Stage 3 Lifetime ECL KES 000s | Total KES 000s |
|---|---|---|---|---|
| **Loss allowance as at 01 January 2020** | **394,235** | **145,141** | **1,861,211** | **2,400,587** |
| Changes in the loss allowance | | | | |
| – Transfer to stage 1 | 165,431 | (50,039) | (115,392) | - |
| – Transfer to stage 2 | (10,679) | 26,552 | (15,873) | - |
| – Transfer to stage 3 | (14,255) | (61,474) | 156,905 | - |
| – Write-offs | - | - | (427) | (427) |
| New financial assets originated or purchased | 324,952 | 149,473 | 966,528 | 1,440,953 |
| Financial assets that have been derecognised | (140,079) | (35,572) | (132,324) | (307,974) |
| Changes in models/risk parameters | (79,363) | (20,979) | 395,974 | 295,632 |
| Foreign exchange and other movements | (45,753) | 71,874 | (26,121) | - |
| **Loss allowance as at 31 December 2020** | **594,489** | **224,976** | **3,090,481** | **3,909,946** |

**Mortgage loans**

| **Loss allowance – Loans and advances to customers at amortised cost** | Stage 1 12-month ECL KES 000s | Stage 2 Lifetime ECL KES 000s | Stage 3 Lifetime ECL KES 000s | Total KES 000s |
|---|---|---|---|---|
| **Loss allowance as at 01 January 2020** | **22,090** | **220,318** | **147,938** | **390,346** |
| Changes in the loss allowance | | | | |
| – Transfer to stage 1 | - | - | - | - |
| – Transfer to stage 2 | (1,219) | 1,219 | - | - |
| – Transfer to stage 3 | (14) | (5,548) | 5,499 | - |
| – Write-offs | - | - | (1,648) | (1,648) |
| New financial assets originated or purchased | 5,326 | 15 | 181,399 | 186,739 |
| Financial assets that have been derecognised | (8,656) | (214,383) | (341) | (223,444) |
| Changes in models/risk parameters | (8,837) | 21,611 | 81,904 | 94,678 |
| Foreign exchange and other movements | 3,113 | 2,449 | (5,562) | - |
| **Loss allowance as at 31 December 2020** | **11,803** | **25,679** | **409,189** | **446,673** |

NOTES (Continued)

**4. Financial risk management disclousures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (Continued)**

**Overdraft and credit cards**

| **Loss allowance – Loans and advances to customers at amortised cost** | Stage 1<br>12-month ECL<br>KES 000s | Stage 2<br>Lifetime ECL<br>KES 000s | Stage 3<br>Lifetime ECL<br>KES 000s | Total<br>KES 000s |
|---|---|---|---|---|
| **Loss allowance as at 01 January 2020** | **26,027** | **37,211** | **189,127** | **252,364** |
| Changes in the loss allowance | | | | |
| – Transfer to stage 1 | 18,660 | (15,869) | (2,791) | - |
| – Transfer to stage 2 | (2,704) | 3,082 | (378) | - |
| – Transfer to stage 3 | (3,003) | 2,698 | 11,540 | - |
| – Write-offs | - | - | - | - |
| New financial assets originated or purchased | 49,986 | 9,584 | 40,908 | 100,478 |
| Financial assets that have been derecognised | (9,286) | (19,545) | (13,936) | (42,766) |
| Changes in models/risk parameters | (403) | (3,640) | 47,042 | 54,234 |
| Foreign exchange and other movements | (378) | 8,791 | (8,413) | - |
| **Loss allowance as at 31 December 2020** | **78,899** | **22,312** | **263,100** | **364,310** |
| | ======= | ======= | ======= | ======= |

## NOTES (Continued)

### 4. Financial risk management disclousures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (Continued)

The following table shows a reconciliation from the opening to the closing balance of the gross carrying amount by class of financial instruments.

**Other financial assets**

| **2020**<br>**Other financial assets** | Cash & Bank Balances<br>Kshs'000 | Loans to Banks<br>Kshs'000 | Financial assets FVTOCI<br>Kshs'000 | Financial assets FVTPL<br>Kshs'000 | Financial assets Armotized cost<br>Kshs'000 | Total<br>Kshs'000 |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2020** | **6,961,324** | **2,779,374** | **-** | **1,662,515** | **8,187,378** | **19,590,591** |
| Changes in the loss allowance | | | | | | |
| – Transfer to stage 1 | - | - | - | - | - | - |
| – Transfer to stage 2 | - | - | - | - | - | - |
| – Transfer to stage 3 | - | - | - | - | - | - |
| – Write-offs | - | - | - | - | - | - |
| New financial assets originated or purchased | 1,918,197 | - | 7,033,006 | - | 714,017 | 9,665,220 |
| Financial assets that have been derecognised | - | (1,959,968) | | (595,718) | - | (2,555,686) |
| **Gross carrying amount as at 31 December 2020** | **8,879,521** | **819,406** | **7,033,006** | **1,066,797** | **8,901,395** | **26,700,125** |
| | ======== | ======= | ======== | ======== | ======== | ========= |
| **2019** | | | | | | |
| **Gross carrying amount as at 1 January 2019** | **6,281,701** | **1,222,738** | **-** | **-** | **6,946,277** | **14,450,716** |
| Changes in the loss allowance | | | | | | |
| – Transfer to stage 1 | - | - | - | - | - | - |
| – Transfer to stage 2 | - | - | - | - | - | - |
| – Transfer to stage 3 | - | - | - | - | - | - |
| – Write-offs | - | - | - | - | - | - |
| New financial assets originated or purchased | 679,623 | 1,556,636 | - | 1,662,515 | 1,241,101 | 5,139,875 |
| Financial assets that have been derecognised | - | - | - | - | - | - |
| **Gross carrying amount as at 31 December 2019** | **6,961,324** | **2,779,374** | **-** | **1,662,515** | **8,187,378** | **19,590,591** |
| | ======== | ======== | ======== | ======= | ======== | ======== |

NOTES (Continued)

### 4. Financial risk management disclousures (continued)
### 4.1 Credit risk (continued)
### 4.1.1 Loans and advances (continued)

The loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI is not material.

**Modified financial assets**

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

| Financial assets (with loss allowance based on lifetime ECL) modified during the period | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Gross carrying amount before modification | 16,489,272 | - |
| Loss allowance before modification | 968,976 | - |
| Net carrying amount before modification | 15,520,296 | - |
| Net modification gain/(loss) | 15,880 | - |
| Net amortised cost after modification | 15,504,416 | - |

| Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification | - | - |
| | - | - |

**Collateral management**

The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The acceptability of collateral for credit risk mitigation is guided by the Bank's procedures and policies. The main types of collateral taken are:

| Type of lending | Collateral type |
|---|---|
| Mortgage lending | First ranking legal charge over the property financed. |
| Personal loans | Check offs and cash backed |
| Asset finance | Secured by motor vehicles and chattel registrations |
| Other loans and advances | Debentures over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Company guarantees. |

There has been no change in collateral management in the year

**Valuation of collateral**

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuation reports on properties are valid for 5 years after which the property and equipment is revalued.

## NOTES (Continued)

**4. Financial risk management disclousures (continued)**
**4.1 Credit risk (continued)**
**4.1.1 Loans and advances (continued)**

**Fair value of collateral held**

The Bank holds collateral against loans and advances to customers in the form of cash, residential, commercial, and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Bank also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually. At 31 December 2020 the net carrying amount of loans and advances was Kshs 56,579,798,000 (2019 – Kshs 50,594,439,000 ) and the value of the respective collateral was KShs 122,168,768,000 (2019 – Kshs 111,918,975,000).

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2019 and 2020.

**Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements**

The Bank holds financial instruments, financial collateral and cash collateral against its loans and advances measured at amortised cost. The Bank is entitled to offset these through enforceable master netting arrangements or similar agreements, in case of default. As at 31 December 2020, no financial assets or financial liabilities had been offset and presented net on the statement of financial position. No collateral had been pledged for deposits held.

**4.1.2 Other non-loan financial assets**

ECL on non-loan financial assets such as government securities, other investments at amortised cost and at
FVOCI and other financial assets are measured as follows:

Use of external credit ratings as proxies to infer approximate PDs;
Assumption of 100% LGDs
Group assigns equal 'loss' and 'no loss' scenarios based on expert judgment;
EADs are estimated based on the expected maturities of the instruments, most of which are less than 12 months.

All the non-loan financial assets are in stage 1

## NOTES (Continued)

**4.Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**

### 4.1.3 Concentration of risk

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

**i) Advances to customers- Group and Bank**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Kshs 000 | % | Kshs 000 | % |
| Manufacturing | 586,594 | 1 | 258,752 | 1 |
| Wholesale and retail | 25,502,362 | 42 | 22,692,727 | 42 |
| Transport and communication | 4,499,691 | 7 | 3,319,443 | 6 |
| Agriculture | 2,867,256 | 5 | 3,086,734 | 6 |
| Business services | 756,845 | 1 | 386,120 | 1 |
| Building and construction | 3,632,394 | 6 | 3,307,121 | 6. |
| Other | 23,455,584 | 38 | 20,664,630 | 38 |
| | **61,300,726** | **100** | **53,715,527** | **100** |
| | ========== | ========== | ========== | ======== |
| **ii) Customer deposits** | | | | |
| Central and local Government | 50,582 | 0 | 40,969 | 0 |
| Co-operative societies | 455,283 | 1 | 394,613 | 1 |
| Insurance companies | 311,358 | 0 | 266,988 | 0 |
| Private enterprises & individuals | 68,781,894 | 99 | 57,220,864 | 99 |
| Non-profit institutions | 157,653 | 0 | 131,051 | 0 |
| | **69,756,770** | **100** | **58,054,485** | **100** |
| | ========== | ========== | ========== | ======== |
| **iii) Off balance sheet items** | | | | |
| Letters of credit and guarantees | 8,168,692 | 100 | 5,615,640 | 100 |
| | **8,168,692** | **100** | **5,615,640** | **100** |
| | ========== | ========== | ========== | ======== |

**Incorporation of forward looking information**

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

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

## NOTES (Continued)

**4.Financial risk management disclosures (continued)**
**4.1 Credit risk (continued)**
**4.1.3 Concentration of risk (continued)**

**Incorporation of forward looking information (continued)**

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2020 for the years 2020 to 2024

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| **Inflation** | | | | | |
| - Base scenario | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| - Range of upside scenarios | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| - Range of downside scenarios | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Exchange rates** | | | | | |
| - Base scenario | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| - Range of upside scenarios | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| - Range of downside scenarios | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Benchmark interest rates** | | | | | |
| - Base scenario | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| - Range of upside scenarios | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| - Range of downside scenarios | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Reserves** | | | | | |
| - Base scenario | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| - Range of upside scenarios | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| - Range of downside scenarios | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |

**Sensitivity analysis**

The most significant assumption affecting the ECL allowance is interest rates given its impact on borrowers' ability to meet their contractual repayments. Other forward looking consideration not otherwise incorporated within the calculation of ECL, such as inflation, GDP and exchange rates, have been considered but do not have a material impact therefore no adjustment has been to ECL for such factors.

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

| **Interest rates** | -5% | 5% |
|---|---|---|
| | KShs'000 | KShs'000 |
| Term loans | 5,746 | 2,554 |
| Mortgages | 670 | 298 |
| Overdrafts and credit cards | 530 | 236 |

## NOTES (Continued)

**4.Financial risk management disclosures (continued)**

**4.2 Liquidity risk**

**4.2.1 Management of liquidity risk**

The Group's liquidity risk management is carried out within the Group and monitored by the Asset Liability committee (ALCO).

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements.
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.

The Group invests in short term liquid instruments which can easily be sold in the market when the need arises

- The Group enters into lending contracts subject to availability of funds.
- The Group has an aggressive strategy aimed at increasing the customer deposit base.
- The Group borrows from the market through interbank transactions with other banks and the Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the group has sufficient cash flows.

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

**Exposure to liquidity risk**

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

| | 2020 | 2019 |
|---|---|---|
| At 31 December | 37.1% | 33.1% |
| Average for the year | 35.1% | 32.6% |
| Maximum for the year | 37.1% | 36.6% |
| Minimum for the year | 33.9% | 30.7% |

To address any liquidity risk negative gaps, the group has an Assets & Liabilities Committee that directs mobilization of deposits and where needed supports big tickets through aggressive pricing, halts or significantly curtails asset growth. The Group uses the interbank borrowing or disposes government securities to address short -term negative gaps.

## NOTES (Continued)

**4. Financial risk management disclosures (continued)**

**4.2 Liquidity risk (continued)**

### 4.2.2 (a) Liquidity risk based on undiscounted cash flows- Group

The table below analyses the cash flows payable by the group under non-derivative financial liabilities by remaining contractual maturities and non-derivative financial assets by expected maturity dates as at the date of the statement of financial position.

| 31 December 2020 | Upto 1 month Kshs 000 | 1 - 3 months Kshs 000 | 3 - 12 months Kshs 000 | 1 - 5 years Kshs 000 | Over 5 years Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|
| Balances due to banks | 451,741 | - | - | - | - | 451,741 |
| Customer deposits | 42,252,708 | 7,556,868 | 20,959,943 | 97,077 | - | 70,866,596 |
| Borrowings | - | - | 2,796,343 | 483,709 | - | 3,280,052 |
| Provisions | 587,877 | | | | | 587,877 |
| Other liabilities | 1,655,822 | - | - | - | - | 1,655,822 |
| Lease liabilities | 34,573 | 103,718 | 276,581 | 851,576 | 340,630 | 1,607,077 |
| Capital commitments | | - | 169,986 | - | - | 169,986 |
| **Total financial liabilities** | **44,982,721** | **7,660,586** | **24,202,853** | **1,432,362** | **340,630** | **78,619,152** |
| | | | | | | - |
| Cash-in hand | 4,038,446 | - | - | - | - | 4,038,446 |
| Balances with CBK | 4,841,075 | - | - | - | - | 4,841,075 |
| Balances due from banks | 819,406 | - | - | 41,634 | 8,944 | 869,985 |
| Government securities | 7,150,000 | 1,614,823 | 509,264 | - | 13,237,440 | 22,511,527 |
| Loans and advances | 4,312,814 | 2,426,547 | 5,304,225 | 41,300,861 | 26,761,322 | 80,105,768 |
| Other investments | - | 126,804 | | | | |
| Other assets | 1,421,545 | - | - | - | - | 1,421,545 |
| **Total financial assets** | **22,583,286** | **4,168,174** | **5,813,489** | **41,342,495** | **40,007,706** | **113,788,346** |
| **(Gap)/surplus** | **(22,399,435)** | **(3,492,412)** | **(18,389,364)** | **39,910,133** | **39,667,076** | **35,169,194** |
| | ========== | ========== | ========== | ========= | ========= | ========= |

## NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.2 Liquidity risk (continued)**

### 4.2.2 (b) Liquidity risk based on undiscounted cash flows- Bank

| **31 December 2020** | Upto 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | Kshs 000 | KShs'000 | KShs'000 | Kshs 000 | KShs'000 | KShs'000 |
| Balances due to banks | 451,741 | - | - | - | - | 451,741 |
| Customer deposits | 42,475,979 | 7,596,800 | 21,070,700 | 97,590 | - | 71,241,069 |
| Borrowings | - | - | 2,796,343 | 483,709 | - | 3,280,052 |
| Provisions | 587,877 | | | | | 587,877 |
| Other liabilities | 1,512,866 | - | - | - | - | 1,512,866 |
| Lease liabilities | 34,573 | 103,718 | 276,581 | 851,576 | 340,630 | 1,607,077 |
| Capital commitments | | - | 169,986 | - | - | 169,986 |
| **Total financial liabilities** | **45,063,036** | **7,700,518** | **24,313,609** | **1,432,875** | **340,630** | **78,850,668** |
| Cash-in hand | 4,038,446 | - | - | - | - | 4,038,446 |
| Balances with CBK | 4,841,075 | - | - | - | - | 4,841,075 |
| Balances due from banks | 819,406 | - | - | 41,634 | 8,944 | 869,985 |
| Government securities | 7,150,000 | 1,614,823 | 509,264 | - | 13,237,440 | 22,511,527 |
| Loans and advances | 4,312,814 | 2,426,547 | 5,304,225 | 41,300,861 | 26,761,322 | 80,105,768 |
| Other investments | - | 126,804 | | | | |
| Other assets | 1,385,077 | - | - | - | - | 1,385,077 |
| **Total financial assets** | **22,546,818** | **4,168,174** | **5,813,489** | **41,342,495** | **40,007,706** | **113,751,878** |
| **(Gap)/surplus** | **(22,516,218)** | **(3,532,344)** | **(18,500,120)** | **39,909,620** | **39,667,076** | **34,901,210** |
| | ========== | ========== | ========== | ========== | ========= | ========== |

# NOTES (Continued)

**4. Financial risk management disclosures (continued)**
**4.2 Liquidity risk (continued)**

**4.2.2 (c) Liquidity risk based on undiscounted cash flows- Group**

| 31 December 2019 | Upto 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | Kshs 000 | KShs'000 | KShs'000 | Kshs 000 | KShs'000 | KShs'000 |
| Balances due to banks | 56,906 | - | - | - | - | 56,906 |
| Customer deposits | 35,543,282 | 6,189,624 | 17,202,037 | 80,322 | - | 59,015,264 |
| Borrowings | - | - | 2,015,817 | 2,601,535 | - | 4,617,352 |
| Provisions | 424,606 | | | | | 424,606 |
| Other liabilities | 1,954,516 | - | - | - | - | 1,954,516 |
| Lease liabilities | 31,507 | 126,027 | 220,547 | 851,042 | 340,417 | 1,569,540 |
| Capital commitments | | - | 169,986 | - | - | 169,986 |
| **Total financial liabilities** | **38,010,817** | **6,315,651** | **19,608,387** | **3,532,898** | **340,417** | **67,808,170** |
| | | | | | | - |
| Cash-in hand | 3,566,591 | - | - | - | - | 3,566,591 |
| Balances with CBK | 3,394,733 | - | - | - | - | 3,394,733 |
| Balances due from banks | 2,779,374 | - | - | - | - | 2,779,374 |
| Government securities | 1,650,000 | 2,171,306 | 1,004,345 | 4,871,492 | 2,032,629 | 11,729,772 |
| Loans and advances | 3,856,578 | 2,169,852 | 4,743,112 | 36,931,802 | 23,930,344 | 71,631,687 |
| Corporate bond | | | 417,259 | - | | 417,259 |
| Other investments | - | - | 1,274,069 | 133,240 | | 1,407,309 |
| Other assets | 1,362,923 | - | - | - | - | 1,362,923 |
| **Total financial assets** | **16,610,199** | **4,341,158** | **7,438,785** | **41,936,533** | **25,962,973** | **96,289,648** |
| **(Gap)/surplus** | **(21,400,618)** | **(1,974,493)** | **(12,169,602)** | **38,403,635** | **25,622,556** | **28,481,478** |
| | ========== | ========== | ========== | ========= | ========= | ========== |

## NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.2 Liquidity risk (continued)
### 4.2.2 c) Liquidity risk based on undiscounted cash flows- Group and Bank (continued)

| 31 December 2019 | Upto 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | Kshs 000 | KShs'000 | KShs'000 | Kshs 000 | KShs'000 | KShs'000 |
| Balances due to banks | 56,906 | - | - | - | - | 56,906 |
| Customer deposits | 35,764,368 | 6,189,624 | 17,202,037 | 80,322 | - | 59,236,350 |
| Borrowings | - | - | 2,796,343 | 483,709 | - | 3,280,052 |
| Provisions | 424,606 | | | | | 424,606 |
| Other liabilities | 1,877,526 | - | - | - | - | 1,877,526 |
| Lease liabilities | 31,507 | 126,027 | 220,547 | 851,042 | 340,417 | 1,569,540 |
| Capital commitments | | - | 169,986 | - | - | 169,986 |
| **Total financial liabilities** | **38,154,913** | **6,315,651** | **20,388,913** | **1,415,073** | **340,417** | **66,614,966** |
| | | | | | | - |
| Cash-in hand | 3,566,591 | - | - | - | - | 3,566,591 |
| Balances with CBK | 3,394,733 | - | - | - | - | 3,394,733 |
| Balances due from banks | 2,779,374 | - | - | - | - | 2,779,374 |
| Government securities | 1,650,000 | 2,171,306 | 1,004,345 | 4,871,492 | 2,032,629 | 11,729,772 |
| Loans and advances | 3,856,578 | 2,169,852 | 4,743,112 | 36,931,802 | 23,930,344 | 71,631,687 |
| Corporate bond | | | 417,259 | - | | 417,259 |
| Other investments | - | - | 1,274,069 | 133,240 | | 1,407,309 |
| Other assets | 1,342,492 | - | - | - | - | 1,342,492 |
| **Total financial assets** | **16,589,768** | **4,341,158** | **7,438,785** | **41,936,533** | **25,962,973** | **96,269,217** |
| **(Gap)/surplus** | **(21,565,145)** | **(1,974,493)** | **(12,950,128)** | **40,521,461** | **25,622,556** | **29,654,251** |
| | ========== | ========= | ========= | ========= | ========= | ============ |

The following table shows commitments/guarantees and operating lease commitments that are expected to have cash outflows in future from the Group as at 31 December 2019.

| | | 2020 | 2019 |
|---|---|---|---|
| | | Kshs 000 | Kshs 000 |
| (a) | Letters of credit, guarantees, acceptances | 8,168,692 | 5,615,640 |
| (b) | Operating lease arrangements | 1,607,076 | 1,569,539 |
| (c) | Committed and undrawn facilities | 6,042,645 | 2,488,635 |
| | | **15,818,413** | **9,673,814** |
| | | ============ | ============ |

NOTES (Continued)

### 4. Financial risk management disclosures (continued)

#### 4.3 Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, equity prices, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market. Non-trading portfolios mainly arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

**Management of market risks**

Overall responsibility of managing market risk rests with the ALCO. The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

**i) Interest rate risk**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities.

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

# NOTES (Continued)

**4. Financial risk management disclosures (continued)**

**4.3 Market risk (continued)**

**(i) Interest rate risk - Group**

| **31 December 2020** | Non-interest bearing Kshs 000 | 0 – 3 months Kshs 000 | 4 – 12 months Kshs 000 | 1-5 years Kshs 000 | Over 5 years Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Balances due to banks | 451,741 | | | - | - | 451,741 |
| Customer deposits | 42,252,708 | 7,458,408 | 19,965,605 | 80,049 | | 69,756,770 |
| Borrowings | - | - | 2,635,038 | 382,111 | | 3,017,148 |
| Provisions | 587,877 | - | | | | 587,877 |
| Other liabilities | 1,655,822 | - | - | - | | 1,655,822 |
| Lease liabilities | 34,573 | 103,718 | 276,581 | 851,576 | 340,630 | 1,607,077 |
| Capital commitments | | | 158,899 | - | - | 158,899 |
| **Total financial liabilities** | **44,982,721** | **7,562,126** | **23,036,122** | **1,313,735** | **340,630** | **77,235,334** |
| Cash-in hand | | 4,038,446 | - | | | |
| Balances with CBK | 4,841,075 | - | | | | 4,841,075 |
| Balances due from banks | 819,406 | - | | 35,737 | 6,590 | 861,733 |
| Government securities | 7,150,000 | 1,585,966 | 476,345 | | 7,788,886 | 17,001,197 |
| Loans and advances | 4,312,814 | 2,376,722 | 4,911,690 | 30,440,738 | 14,537,834 | 56,579,798 |
| Other investments | - | 126,804 | | | | |
| Other assets | 1,421,545 | - | | | | 1,421,545 |
| **Total financial assets** | **22,583,286** | **4,089,492** | **5,388,035** | **30,476,475** | **22,333,310** | **84,743,794** |
| **(Gap)/surplus** | **(22,399,435)** | **(3,472,634)** | **(17,648,087)** | **29,162,740** | **21,992,680** | **7,508,460** |

**(i) Interest rate risk - Group**

| **31 December 2019** | non-interest bearing Kshs 000 | 0 - 3 months Kshs 000 | 4-12 months Kshs 000 | 1 - 5 years Kshs 000 | Over 5 years Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|
| Balances due to banks | 56,906 | | | - | - | 56,906 |
| Customer deposits | 35,543,282 | 6,104,471 | 16,341,215 | 65,518 | | 58,054,485 |
| Borrowings | - | - | 1,899,536 | 2,055,106 | | 3,954,642 |
| Provisions | 424,606 | - | | | | 424,606 |
| Other liabilities | 1,954,516 | - | - | - | | 1,954,516 |
| Lease liabilities | 31,507 | 126,027 | 220,547 | 851,042 | 340,417 | 1,569,540 |
| Capital commitments | | | 158,899 | - | - | 158,899 |
| **Total financial liabilities** | **38,010,817** | **6,230,498** | **18,620,197** | **2,971,666** | **340,417** | **66,173,594** |
| Cash-in hand | 3,566,591 | - | | | | 3,566,591 |
| Balances with CBK | 3,394,733 | - | | | | 3,394,733 |
| Balances due from banks | 2,779,374 | - | | | | 2,779,374 |
| Government securities | 1,650,000 | 2,136,772 | 946,410 | 3,848,279 | 1,268,432 | 9,849,893 |
| Loans and advances | 3,856,578 | 2,125,298 | 4,392,102 | 27,220,530 | 12,999,932 | 50,594,439 |
| Corporate bond | | | 399,847 | | | 399,847 |
| Other investments | - | | 1,258,273 | 126,804 | | 1,385,077 |
| Other assets | 1,362,923 | - | | | | 1,362,923 |
| **Total financial assets** | **16,610,199** | **4,262,070** | **6,996,632** | **31,195,613** | **14,268,364** | **73,332,877** |
| **(Gap)/surplus** | **(21,400,618)** | **(1,968,428)** | **(11,623,566)** | **28,223,947** | **13,927,947** | **7,159,283** |

## NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.3 Market risk (continued)

#### (i) Interest rate risk - Bank

| 31 December 2019 | non-interest bearing Kshs 000 | 0 - 3 months Kshs 000 | 4-12 months Kshs 000 | 1 - 5 years Kshs 000 | Over 5 years Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|
| Balances due to banks | 56,906 | | | - | - | 56,906 |
| Customer deposits | 35,764,368 | 6,104,471 | 16,341,215 | 65,518 | | 58,275,571 |
| Borrowings | - | - | 2,635,038 | 382,111 | | 3,017,148 |
| Provisions | 424,606 | - | | | | 424,606 |
| Other liabilities | 1,877,526 | - | - | - | | 1,877,526 |
| Lease liabilities | 31,507 | 126,027 | 220,547 | 851,042 | 340,417 | 1,569,540 |
| Capital commitments | | | 158,899 | - | - | 158,899 |
| **Total financial liabilities** | **38,154,913** | **6,230,498** | **19,355,699** | **1,298,670** | **340,417** | **65,380,196** |
| Cash-in hand | 3,566,591 | - | | | | 3,566,591 |
| Balances with CBK | 3,394,733 | - | | | | 3,394,733 |
| Balances due from banks | 2,779,374 | - | | | | 2,779,374 |
| Government securities | 1,650,000 | 2,136,772 | 946,410 | 3,848,279 | 1,268,432 | 9,849,893 |
| Loans and advances | 3,856,578 | 2,125,298 | 4,392,102 | 27,220,530 | 12,999,932 | 50,594,439 |
| Corporate bond | | | 399,847 | | | 399,847 |
| Other investments | - | | 1,258,273 | 126,804 | | 1,385,077 |
| Other assets | 1,342,492 | - | | | | 1,342,492 |
| **Total financial assets** | **16,589,768** | **4,262,070** | **6,996,632** | **31,195,613** | **14,268,364** | **73,312,446** |
| **(Gap)/surplus** | **(21,565,145)** | **(1,968,428)** | **(12,359,067)** | **29,896,943** | **13,927,947** | **7,932,250** |

#### (i) Interest rate risk - Bank

| 31 December 2020 | non-interest bearing Kshs 000 | 0 - 3 months Kshs 000 | 4-12 months Kshs 000 | 1 - 5 years Kshs 000 | Over 5 years Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|
| Balances due to banks | 451,741 | | | - | - | 451,741 |
| Customer deposits | 42,475,979 | 7,497,820 | 19,965,605 | 80,472 | | 70,125,378 |
| Borrowings | - | - | 2,635,038 | 382,111 | | 3,017,148 |
| Provisions | 587,877 | - | - | | | 587,877 |
| Other liabilities | 1,512,866 | - | - | - | | 1,512,866 |
| Lease liabilities | 34,573 | 103,718 | 276,581 | 851,576 | 340,630 | 1,607,077 |
| Capital commitments | | | 158,899 | - | - | 158,899 |
| **Total financial liabilities** | **45,063,036** | **7,601,537** | **23,036,122** | **1,314,158** | **340,630** | **77,460,986** |
| Cash-in hand | 4,038,446 | - | - | | | 4,038,446 |
| Balances with CBK | 4,841,075 | - | - | | | 4,841,075 |
| Balances due from banks | 819,406 | - | - | 35,737 | 6,590 | 861,733 |
| Government securities | 7,150,000 | 1,585,966 | 476,345 | | 7,788,886 | 17,001,197 |
| Loans and advances | 4,312,814 | 2,376,722 | 4,911,690 | 30,440,738 | 14,537,834 | 56,579,798 |
| Other investments | - | 126,804 | | | | |
| Other assets | 1,385,077 | - | | | | 1,385,077 |
| **Total financial assets** | **22,546,818** | **4,089,492** | **5,388,035** | **30,476,475** | **22,333,310** | **84,707,326** |
| **(Gap)/surplus** | **(22,516,218)** | **(3,512,046)** | **(17,648,087)** | **29,162,317** | **21,992,680** | **7,246,340** |

## NOTES (Continued)

### 4. Financial risk management disclosures (continued)
### 4.3 Market risk (continued)
### i) Interest rate risk (continued)

**Sensitivity analysis**

The Interest Rate Risks sensitivity analysis is based on the following assumptions:

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

Assuming no management actions, a 10% appreciation in interest rates would increase net interest income by Shs 703 million (2019 – 555million ), while a 10% depreciation in interest rated would decrease net interest income by Shs 703 Million (2019 – Shs 555,Million).

### ii) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily. The table below summarizes the foreign currency exposure as at 31 December 2020 and 31 December 2019:

| **31 December 2020** | USD Kshs 000 | GBP Kshs 000 | EURO Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Deposits and balances due from banking institutions | 643,765 | 65,139 | 200,753 | 909,657 |
| **Financial liabilities** | | | | |
| Borrowings | - | - | (451,741) | (451,741) |
| **Net currency exposure** | **643,765** | **65,139** | **(250,988)** | **457,916** |
| **31 December 2019** | | | | |
| **Financial assets** | | | | |
| Deposits and balances due from banking institutions | 1,311,838 | 10,027 | 31,375 | 1,353,240 |
| **Financial liabilities** | | | | |
| Borrowings | - | - | (56,906) | (56,906) |
| **Net currency exposure** | **1,311,838** | **10,027** | **(25,531)** | **1,296,334** |

The group manages the currency risk through deposit mobilization and also long term borrowings and onward lending to customers to mitigate any gaps. The Group also uses the interbank borrowings or lending to manage the currency gap position

**Sensitivity analysis**

At 31 December 2020 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 34 million (31 December 2019: KShs 39 million) lower/higher.

### 4.4 Fair value of financial assets and liabilities

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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

## NOTES (Continued)

**4. Financial risk management disclosures (continued)**

**4.4 Fair value of financial assets and liabilities (continued)**

The tables below show the carrying amounts and fair values of financial assets and financial liabilities measured and carried at fair value, including their levels in the fair value hierarchy.

| | Level 1 Kshs 000 | Level 2 Kshs 000 | Level 3 Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|
| **2020 - Group** | | | | |
| **Financial assets** | | | | |
| Government securities at FVOCI | 7,033,006 | - | - | 7,033,006 |
| Govt securities at FVTPL | 1,066,797 | - | - | 1,066,797 |
| **2019 - Group** | | | | |
| **Financial assets** | | | | |
| Govt securities at FVTPL | 1,662,515 | - | - | 1,662,515 |
| **2020 - Bank** | | | | |
| **Financial assets** | | | | |
| Government securities at FVOCI | 7,033,006 | - | - | 7,033,006 |
| Govt securities at FVTPL | 1,066,797 | - | - | 1,066,797 |
| **2019 - Bank** | | | | |
| **Financial assets** | | | | |
| Govt securities at FVTPL | 1,662,515 | - | - | 1,662,515 |

The Group does not have any financial liabilities carried at fair value

The tables below show the carrying amounts and fair values of financial assets and financial liabilities not carried at fair value, including their levels in the fair value hierarchy.

| **Group** **At 31 December 2020** | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Fair value Shs'000 | Carrying value Shs'000 |
|---|---|---|---|---|---|
| Cash and balances with CBK | | 8,879,521 | - | 8,879,521 | 8,879,521 |
| Balances due from banking institutions | - | 819,406 | - | 819,406 | 819,406 |
| Loans and advances to customers | - | - | 80,105,768 | 80,105,768 | 56,579,798 |
| Government securities at amortised cost | - | 11,786,464 | | 11,786,464 | 8,901,395 |
| Other investment | - | 126,804 | - | 126,804 | 126,804 |
| Other financial assets | - | 374,556 | - | 374,556 | 374,556 |
| Deposits from customers | - | - | 70,930,644 | 70,930,644 | 69,756,770 |
| Borrowings | - | 3,280,052 | - | 3,280,052 | 3,017,148 |
| Other financial liabilities | - | 997,437 | - | 997,437 | 997,437 |
| **At 31 December 2019** | | | | | |
| Cash and balances with CBK | | 6,961,324 | - | 6,961,324 | 6,961,324 |
| Balances due from banking institutions | - | 2,779,374 | - | 2,779,374 | 2,779,374 |
| Loans and advances to customers | - | - | 71,631,687 | 71,631,687 | 50,594,439 |
| Government securities at amortised cost | - | 9,178,551 | - | 9,178,551 | 8,187,378 |
| Other investment | - | 1,385,077 | - | 1,385,077 | 1,385,077 |
| Other financial assets | - | 289,284 | - | 289,284 | 289,284 |
| Deposits from customers | - | - | 58,054,485 | 58,054,485 | 57,314,792 |
| Borrowings | - | 4,617,352 | - | 4,617,352 | 3,954,642 |
| Other financial liabilities | - | 1,038,981 | - | 1,038,981 | 1,038,981 |

NOTES (Continued)

**4. Financial risk management (continued)**

**4.4 Fair value of financial assets and liabilities (continued)**

| **Bank** **At 31 December 2020** | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Fair value Shs'000 | Carrying value Shs'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with CBK | - | 8,879,521 | - | 8,879,521 | 8,879,521 |
| Balances due from banking institutions | - | 819,406 | - | 819,406 | 819,406 |
| Loans and advances to customers | - | - | 80,105,768 | 80,105,768 | 56,579,798 |
| Government securities at amortised cost | - | 11,786,464 | - | 11,786,464 | 8,901,395 |
| Other investment | - | 126,804 | - | 126,804 | 126,804 |
| Other financial assets | - | 374,556 | - | 374,556 | 374,556 |
| **Liabilities** | | | | | |
| Deposits from customers | - | - | 70,125,378 | 70,125,378 | 69,756,770 |
| Borrowings | - | 3,280,052 | - | 3,280,052 | 3,017,148 |
| Other financial liabilities | - | 854,481 | - | 854,481 | 854,481 |

| **At 31 December 2019** | Level 1 Shs'000 | Level 2 Shs'000 | Level 3 Shs'000 | Fair value Shs'000 | Carrying value Shs'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with CBK | - | 6,961,324 | - | 6,961,324 | 6,961,324 |
| Balances due from banking institutions | - | 2,779,374 | - | 2,779,374 | 2,779,374 |
| Loans and advances to customers | - | - | 71,631,687 | 71,631,687 | 50,594,439 |
| Government securities at amortised cost | - | 9,178,551 | - | 9,178,551 | 8,187,378 |
| Other investment | - | 1,385,077 | - | 1,385,077 | 1,385,077 |
| Other financial assets | - | 289,284 | - | 289,284 | 289,284 |
| **Liabilities** | | | | | |
| Deposits from customers | - | - | 58,275,571 | 58,275,571 | 57,314,792 |
| Borrowings | - | 4,617,352 | - | 4,617,352 | 3,954,642 |
| Other financial liabilities | - | 966,996 | - | 966,996 | 966,996 |

**5 Capital Management**

**a) Regulatory capital**

The Group's objectives when managing capital are:

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

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed 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 Shs 1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 8 % of total deposit liabilities
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

## NOTES (Continued)

**5 Capital Management (continued)**
**a) Regulatory capital (continued)**

The Insurance Regulatory Authority requires Family Insurance Agency to maintain a minimum level of regulatory capital of Shs 1,000,000. The agency has complied with the capital requirement.
The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.
The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.
The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software ) and goodwill.

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

The Bank's regulatory capital position at 31 December 2020 was as follows:

| | 2020<br>Kshs 000 | 2019<br>Kshs 000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 1,287,108 | 1,287,108 |
| Share premium | 5,874,662 | 5,874,662 |
| Retained earnings | 5,735,148 | 4,968,009 |
| **Total Tier 1 capital** | **12,896,918** | **12,129,779** |
| **Tier 2 capital** | | |
| Revaluation reserves (25%) | 66,162 | 69,606 |
| Term subordinated debt | 2,018,800 | 2,018,800 |
| **Total Tier 2 capital** | **2,084,962** | **2,088,406** |
| **Total regulatory capital** | **14,981,879** | **14,218,185** |
| **Risk-weighted assets** | **74,824,096** | **70,978,185** |
| **Capital ratios** | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%) | 17.89% | 19.88% |
| Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%) | 15.19% | 16.79% |

## NOTES (Continued)

### 6 (a) Interest income

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Interest on loans and advances | 7,915,918 | 6,630,106 | 7,915,918 | 6,630,106 |
| Interest on bank placements | 102,556 | 180,012 | 102,556 | 180,012 |
| Interest income on | | | | |
| - government securities at amortised cost and FVOCI | 1,345,455 | 653,367 | 1,345,455 | 653,367 |
| - corporate bonds and commercial paper | 22,797 | 52,334 | 22,797 | 52,334 |
| | **9,386,726** | **7,515,819** | **9,386,726** | **7,515,819** |

### 6 (b) investment income

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Interest on financial instruments at FVTPL | 119,375 | 164,423 | 119,375 | 164,423 |

Comparative numbers for interest income and investment income have been reclassified to show consistency in the presentation with the current year classification. Interest earned through FVPTL is shown separately as this is not measured using the effective interest rate method

### 7 Interest expense

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Interest on customer deposits | 1,996,304 | 1,640,403 | 2,015,431 | 1,651,326 |
| Interest on balances due to banks | 24,814 | 11,840 | 24,814 | 11,840 |
| Interest on borrowings | 447,131 | 475,619 | 447,131 | 475,619 |
| Bond amortization expenses | 127,648 | 125,602 | 127,648 | 125,602 |
| | **2,595,897** | **2,253,464** | **2,615,024** | **2,264,387** |

* Bond amortization expenses were classified under operating expenses in the prior year and have been reclassified to interest expense to show consistency in the presentation with the current year classification as they are measured using the effective interest rate method

### 8 Fees and commission income

| | | | | |
|---|---|---|---|---|
| (a) Fee and commission income | | | | |
| Transaction related fees | 1,601,691 | 1,740,962 | 1,601,691 | 1,740,962 |
| Loan service fees | 141,635 | 130,224 | 141,635 | 130,224 |
| Ledger related fees and commissions | 196,430 | 196,331 | 196,430 | 196,331 |
| | **1,939,756** | **2,067,517** | **1,939,756** | **2,067,517** |
| (b) Fees and commission expense | (273,643) | (260,969) | (273,643) | (260,969) |

* Fees and commission expense was classified under operating expenses in the prior year and have been reclassified to show consistency in the presentation with the current year classification.

## NOTES (Continued)

### 8 Fees and commission income (continued)

| | Group 2020 | Group 2019 | Bank 2020 | Bank 2019 |
|---|---|---|---|---|
| (c) Other income | | | | |
| Brokerage commissions | 167,978 | 115,273 | - | - |
| Other incomes | 232,207 | 228,032 | 232,207 | 228,032 |
| | **400,185** | **343,305** | **232,207** | **228,032** |

### 9 a) Operating expenses

| | Group 2020 Kshs 000 | Group 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|
| Staff costs (Note 10) | 2,388,354 | 2,029,861 | 2,339,382 | 1,989,360 |
| Directors' emoluments - Fees | 121,467 | 90,490 | 107,940 | 85,000 |
| - other | 10,666 | 10,416 | 10,666 | 10,416 |
| Depreciation – property and equipment (Note 22) | 507,145 | 544,241 | 505,652 | 542,223 |
| Amortisation of intangible assets (Note 23) | 123,771 | 119,295 | 119,567 | 116,196 |
| Contribution to Deposit Protection Fund | 82,498 | 73,363 | 82,498 | 73,363 |
| Auditors' remuneration | 8,922 | 7,736 | 8,397 | 7,235 |
| Amortisation of prepaid operating lease | 4,637 | 4,665 | 4,637 | 4,665 |
| Marketing expenses | 271,999 | 112,376 | 271,424 | 112,182 |
| Premises maintenance | 220,975 | 216,933 | 220,233 | 216,184 |
| Security service cost | 208,101 | 205,010 | 208,101 | 205,010 |
| *Occupancy expenses | 60,405 | 59,326 | 60,405 | 59,326 |
| Amortisation of right of use asset | 453,106 | 518,780 | 453,106 | 518,780 |
| Interest expense on lease liability | 174,804 | 167,454 | 174,804 | 167,454 |
| Other operating expenses (Note 9 b) | 1,011,378 | 1,101,707 | 1,009,351 | 1,098,655 |
| | **5,648,228** | **5,261,653** | **5,576,163** | **5,206,049** |

### Other Operating expenses

| | Group 2020 Kshs 000 | Group 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|
| Advertising costs | 172,080 | 160,310 | 172,080 | 160,310 |
| Business stationery expenses | 76,334 | 112,841 | 76,334 | 112,841 |
| Computer hardware maintenance | 167,629 | 155,200 | 167,629 | 155,200 |
| Consultancy services | 46,521 | 112,411 | 45,834 | 112,329 |
| Corporate social responsibility | 36,350 | 39,961 | 36,350 | 39,961 |
| Insurance expense | 71,814 | 71,199 | 71,814 | 71,199 |
| Licenses and permits | 37,418 | 46,297 | 37,418 | 46,297 |
| Other administrative expenses | 148,969 | 151,395 | 147,629 | 148,496 |
| Software license renewal fees | 215,483 | 192,195 | 215,483 | 192,195 |
| Travelling expenses | 38,780 | 59,898 | 38,780 | 59,827 |
| | **1,011,378** | **1,101,707** | **1,009,351** | **1,098,655** |

# NOTES (Continued)

**10 Staff costs**

| | 2020 Kshs 000 | 2019 Kshs 000 | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|---|---|
| Salaries and wages | 2,039,214 | 1,731,402 | 1,996,972 | 1,696,575 |
| Training, recruitment and staff welfare costs | 90,341 | 54,790 | 90,341 | 54,790 |
| Contributions to defined contribution pension scheme | 115,231 | 104,093 | 113,950 | 102,796 |
| Medical expenses | 148,332 | 128,744 | 142,989 | 124,805 |
| Leave pay provision movement | (7,648) | 7,747 | (7,648) | 7,400 |
| NSSF contributions | 2,885 | 3,085 | 2,779 | 2,994 |
| | **2,388,354** | **2,029,861** | **2,339,382** | **1,989,360** |

The total number of permanent employees in the Group and Bank as at the end of the year was 1,133 and 1,117 respectively (2019: 1,325 and 1,309 respectively)

**11 Income tax**

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 Kshs 000 | 2019 Kshs 000 | 2020 Kshs 000 | 2019 Kshs 000 |
| a) Taxation charge | | | | |
| Current tax based on the taxable profit at 25% (2019: 30%) | 941,431 | 725,903 | 912,569 | 712,576 |
| Deferred income tax (Note 29) | (636,888) | (255,408) | (636,564) | (256,295) |
| Under provision of current tax in prior years | - | 132,214 | - | 129,717 |
| Overprovision of deferred income tax in prior years | (26,410) | (129,716) | (26,439) | (129,716) |
| Total charge | **278,133** | **472,993** | **249,566** | **456,282** |
| b) Reconciliation of accounting profit to tax charge | | | | |
| **Profit before taxation** | 1,440,653 | 1,422,829 | 1,325,613 | 1,352,237 |
| Tax calculated at a tax rate of 25% (2019: 30%) | 360,163 | 426,849 | 331,403 | 405,671 |
| Tax effect of expenses not deductible for tax purposes | 82,019 | (53,356) | 81,948 | (45,000) |
| Tax effect of income not taxable | (30,563) | 97,002 | (30,563) | 95,610 |
| Under provision of current tax in prior years | - | 132,214 | - | 129,717 |
| Overprovision of deferred tax in prior years | (26,652) | (129,716) | (26,439) | (129,716) |
| Effect of change in tax rate | (106,834) | - | (106,783) | - |
| | **278,133** | **472,993** | **249,566** | **456,282** |

## NOTES (Continued)

### 12 Earnings per share – Group & Bank

Earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Profit (Kshs 000) | 1,162,520 | 949,836 | 1,076,097 | 895,955 |
| | ====== | ======== | ====== | ====== |
| Weighted average number of shares during the year (000) | 1,287,108 | 1,287,108 | 1,287,108 | 1,287,108 |
| | ====== | ====== | ====== | ====== |
| Earnings per share: | | | | |
| Basic and diluted (Sh) | 0.90 | 0.74 | 0.84 | 0.70 |
| | ====== | ======== | ====== | ====== |

There were no potential dilutive shares outstanding at 31 December 2020.

### 13 Cash and balances with CBK

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Cash in hand | 4,038,445 | 3,394,733 |
| Balances with CBK (Central Bank of Kenya) - cash ratio & other balances | 4,841,076 | 3,566,591 |
| | **8,879,521** | **6,961,324** |
| | ========= | ========= |

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2020, the cash ratio reserve requirement was 4.25% (2019 – 5.25%) of all customer deposits held by the Bank. These funds are available for use by the company in its day-to-day operations in a limited way provided that on any given day, this balance does not fall below the 3% requirement and provided that the overall average in the month is at least 4.25%. During the year, the Central Bank of Kenya reviewed the CRR downwards by 1% to avail additional liquidity to the Banking sector to directly support borrowers that were distressed as a result of Covid-19.

### 14 Balances due from banking institutions

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| **a) Balances due from banking institutions maturing within 90 days:** | | |
| Overnight lending and placement with other banks | 500,084 | 1,589,117 |
| Balances due from local banking institutions | 1,318 | 1,319 |
| Balances due from foreign banking institutions | 318,004 | 1,188,938 |
| | **819,406** | **2,779,374** |
| | ======= | ======= |
| b) Balances due to banking institutions maturing within 90 days: | | |
| Balances with local banking institutions | **451,741** | **56,906** |
| | ======= | ======= |

Deposits with/from local banks as at 31 December 2020 represent overnight lending.

The effective interest rate on deposits due from local banking institutions at 31 December 2020 was 6.30% (2019 –8.35 %).
The effective interest rate on deposits due to local banking institutions at 31 December 2020 was 5.45% (2019 –4.62 %)

NOTES (Continued)

**15 Government securities**

| | Group 2020 Kshs 000 | Group 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019 Kshs 000 |
|---|---|---|---|---|
| Treasury bills and bonds – at amortised cost | 8,901,395 | 8,187,378 | 8,901,395 | 8,187,378 |
| Treasury bonds at fair value through other comprehensive income | 7,033,006 | - | 7,033,006 | - |
| Treasury bonds at fair value through profit and loss | 1,066,797 | 1,662,515 | 1,066,797 | 1,662,515 |
| | **17,001,197** | **9,849,893** | **17,001,198** | **9,849,893** |
| | ======== | ======== | ======== | ======== |
| The maturity profile of government securities is as follows: | | | | |
| Maturing within one year | 9,212,311 | 4,733,182 | 9,212,311 | 1,964,459 |
| Maturing between 2 to 5 years | - | 3,848,279 | - | - |
| Maturing after 5 Years | 7,788,886 | 1,268,432 | 7,788,886 | 7,885,434 |
| | **17,001,197** | **9,849,893** | **17,001,197** | **9,849,893** |
| | ======== | ======== | ======== | ======== |

The weighted average effective interest rate on treasury bonds at 31 December 2020 was 11.19 %, (2019 -9.89 %). The weighted average effective interest rate on treasury bills was 9.46% (2019-9.49 %).

As of 31 December 2020, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya, (2019: Nil)

**16 Loans and advances to customers- Group & Bank**

a) Loans and advances at amortised cost

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Term loans | 47,811,102 | 48,574,668 |
| Mortgage | 6,383,228 | 1,977,441 |
| Overdraft and credit cards | 2,385,468 | 42,330 |
| | **56,579,798** | **50,594,439** |
| | ========== | ========= |

Significant changes in the gross carrying amounts of loans and advances to customers that contributed to movements in loans and advances were new loans advanced in the year and loan repayments.

The movement in the loans and advances are disclosed under note 4

The weighted average effective interest rate on advances to customers at 31 December 2020 was 12.98% (2019 – 12.19 %).
The related party transactions and balances are covered under Note 35 and concentration of advances to customers is covered under Note 4.

## NOTES (Continued)

### 16 Loans and advances to customers- Group & Bank (continued)

The provision for credit loss allowance on loans and advances at amortised cost is as follows:

| **2020** | Stage 1 and 2<br>Kshs 000 | Stage 3<br>Kshs 000 | Total<br>Kshs 000 |
|---|---|---|---|
| **1 January 2020** | 922,457 | 2,862,842 | 3,785,299 |
| Increase in impairment provision | 35,703 | 2,193,280 | 2,228,983 |
| **31 December 2020** | **958,160** | **5,056,122** | **6,014,282** |
| **Charge to profit or loss** | | | |
| Increase in impairment provision | **35,703** | **2,193,280** | **2,228,983** |

| **2019** | Stage 1 and 2<br>Kshs 000 | Stage 3<br>Kshs 000 | Total<br>Kshs 000 |
|---|---|---|---|
| **1 January 2019** | 599,322 | 1,903,068 | 2,502,390 |
| Increase in impairment provision | 323,135 | 959,774 | 1,282,909 |
| **31 December 2019** | **922,457** | **2,862,842** | **3,785,299** |
| **Charge to profit or loss** | | | |
| Increase in impairment provision | **323,135** | **959,774** | **1,282,909** |

NOTES (Continued)

### 17 Corporate bonds at amortised: Group & Bank

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| At amortised cost: | | |
| Centum Limited 2222 | - | 407,364 |
| ECL on amortised cost bonds | - | (7,517) |
| | - | 399,847 |
| The maturity profile of corporate bonds is as follows: | | |
| Within 1 year | - | - |
| Maturing 1 to 5 years | - | 399,847 |
| Maturing after 5 years | | - |
| | **-** | **399,847** |

The weighted average effective interest rate on corporate bonds as at 31 December 2020 was 13% (2019 – 13.00 %). The Centum corporate bond was redeemed during the year.

### 18 Other assets

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 Kshs 000 | 2019 Kshs 000 | 2020 Kshs 000 | 2019 Kshs 000 |
| Un-cleared items in the course of collection | 254,131 | 174,016 | 254,131 | 174,016 |
| Prepayments | 142,746 | 149,624 | 142,746 | 149,624 |
| Deposits for services | 120,424 | 115,267 | 120,424 | 115,267 |
| Discount on subordinated bond | 5,584 | 27,920 | 5,584 | 27,920 |
| Others | 898,660 | 896,096 | 871,569 | 875,665 |
| | **1,421,545** | **1,362,923** | **1,394,454** | **1,342,492** |

All other assets are current.
Other receivables are current and non-interest bearing and are generally between 30 to 90 days' terms.

### 19 Other investments

| | Bank and Group | |
|---|---|---|
| | 2020 Kshs 000 | 2019 Kshs 000 |
| Principal balance at start of year | 1,385,077 | 1,907,773 |
| Repayments in the year | (1,079,273) | (348,485) |
| Provision for expected loss | (179,000) | (179,000) |
| | **126,804** | **1,385,077** |

The Bank had made investments through an investment manager, Alpha Africa Investments Limited. The majority of the outstanding investments relate to deposits made with Chase Bank (in receivership) maturing in 2021. These are measured and carried at amortised cost

## NOTES (Continued)

### 20 Investment in subsidiary

| | No of shares | Holding | 2019 Kshs 000 | 2020 Kshs 000 |
|---|---|---|---|---|
| Family Insurance Agency Limited | 1,000 | 100% | 1,000 | 1,000 |

The subsidiary is a wholly owned Limited Liability Company incorporated and domiciled in Kenya. The company received its licence to operate as Dhamana Insurance Agency on 30 December 2010. Later, the company was registered as a Limited Company named Dhamana Insurance Agency Limited on 22 May 2012. Subsequently, the then Dhamana Insurance Agency Limited, subsidiary, acquired Family Insurance Brokers Limited on 31 July 2015 and changed its name to Family Insurance Agency Limited.

The principal activity of the company is that of an insurance agency business.

Investment in subsidiary is non-current.

### 21 Investment properties - Group & Bank

| | 2020 KShs '000 | 2019 KShs '000 |
|---|---|---|
| At start and end of year | 23,400 | 18,200 |
| Fair value gains | - | 5,200 |
| **At end of year** | 23,400 | 23,400 |

Investment property relates to Leasehold land valued at Shs 23,400,000 (acquired at a cost Shs 3,170,000).

Amounts recognised in statement of profit or loss:

| | | |
|---|---|---|
| Fair value gains | - | 5,200 |

The fair valuation basis takes into account the normal lease structure for similar pieces of land.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or immediately (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)
- (Level 3).

| | Level 1 Kshs. '000 | Level 2 Kshs '000 | Level 3 Kshs. '000 | Total Kshs. '000 |
|---|---|---|---|---|
| **At 31 December 2020** | | | | |
| Investment properties | - | - | 23,400 | 23,400 |
| **At 31 December 2019** | | | | |
| Investment properties | - | - | 23,400 | 23,400 |

Level 3 fair value of land has been derived using the sales comparison approach. Sales prices of comparable land in close proximity are adjusted for differences in key attributes such as property size and location.

# NOTES (Continued)

## 22 Property and Equipment- Group

| Cost/ Valuation | Freehold land<br>Kshs 000 | Buildings<br>Kshs 000 | Leasehold improvements<br>Kshs 000 | Computer<br>Kshs 000 | Motor vehicles<br>Kshs 000 | Fixtures, fittings and equipment<br>Kshs 000 | Total<br>Kshs 000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | | |
| 1 January 2019 | 569,001 | 443,948 | 2,733,781 | 2,154,342 | 121,037 | 1,359,536 | 7,381,645 |
| Additions | - | - | 47,282 | 26,819 | - | 24,791 | 98,892 |
| Gain on revaluation | 20,999 | 16,052 | - | - | - | - | 37,051 |
| **31 December 2019** | **590,000** | **460,000** | **2,781,063** | **2,181,161** | **121,037** | **1,384,327** | **7,517,588** |
| **Depreciation** | | | | | | | |
| 1 January 2019 | - | 65,422 | 1,778,877 | 1,834,069 | 89,597 | 771,907 | 4,539,872 |
| Charge for the year | - | 11,099 | 234,388 | 155,182 | 16,051 | 127,521 | 544,241 |
| Gain on revaluation | - | (76,521) | - | - | - | - | (76,521) |
| **31 December 2019** | **-** | **-** | **2,013,265** | **1,989,251** | **105,648** | **899,428** | **5,007,592** |
| **Net Book Value** | | | | | | | |
| **31 December 2019** | **590,000** | **460,000** | **767,798** | **191,910** | **15,389** | **484,899** | **2,509,996** |
| **Year ended 31 December 2020** | | | | | | | |
| At 1 January 2020 | 590,000 | 460,000 | 2,781,063 | 2,181,161 | 121,037 | 1,384,327 | 7,517,588 |
| Additions | - | - | 64,651 | 96,112 | - | 49,030 | 209,793 |
| **31 December 2020** | **590,000** | **460,000** | **2,845,714** | **2,277,273** | **121,037** | **1,433,357** | **7,727,381** |
| **Depreciation** | | | | | | | |
| At 1 January 2020 | - | - | 2,013,265 | 1,989,251 | 105,648 | 899,428 | 5,007,592 |
| Charge for the year | - | 11,099 | 215,622 | 144,028 | 9,291 | 128,748 | 508,788 |
| **31 December 2020** | **-** | **11,099** | **2,228,887** | **2,133,279** | **114,939** | **1,028,176** | **5,516,380** |
| **Net book value** | | | | | | | |
| **31 December 2020** | **590,000** | **448,901** | **616,827** | **143,994** | **6,098** | **405,181** | **2,211,001** |

The net book value of the building had revaluation not taken place would have been KSh302,005 (2019: Ksh 378,526).

There are no properties or equipment charged as securities as at end of year (2019: None). Fully depreciated assets still in use as at end of year had an initial cost of Kshs 2.54b (2019: Kshs Kshs 1.79b)

## NOTES (Continued)

### 22 Property and Equipment- Bank

| Cost/ Valuation | Freehold land Kshs 000 | Buildings Kshs 000 | Leasehold improvements Kshs 000 | Computer Kshs 000 | Motor vehicles Kshs 000 | Fixtures, fittings and Equipment Kshs 000 | Total Kshs 000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | | | |
| 1 January 2019 | 569,001 | 443,948 | 2,733,781 | 2,150,018 | 117,024 | 1,363,432 | 7,377,204 |
| Additions | - | - | 47,282 | 26,819 | - | 24,791 | 98,892 |
| Revaluation gain | 20,999 | 16,052 | - | - | - | - | 37,051 |
| **31 December 2019** | **590,000** | **460,000** | **2,781,063** | **2,176,837** | **117,024** | **1,388,223** | **7,513,147** |
| Comprising: | | | | | | | |
| At cost | 499,913 | 32,288 | 2,781,063 | 2,176,837 | 117,024 | 1,388,223 | 6,995,348 |
| At valuation | 90,087 | 427,712 | - | - | | - | 517,799 |
| **31 December 2019** | **590,000** | **460,000** | **2,781,063** | **2,176,837** | **117,024** | **1,388,223** | **7,513,147** |
| **Depreciation** | | | | | | | |
| 1 January 2019 | - | 65,422 | 1,778,877 | 1,834,069 | 89,597 | 771,907 | 4,539,872 |
| Charge for the year | - | 11,099 | 234,388 | 154,580 | 15,248 | 126,908 | 542,223 |
| Revaluation gain | - | (76,521) | - | - | - | - | (76,521) |
| **31 December 2019** | **-** | **-** | **2,013,265** | **1,988,649** | **104,845** | **898,815** | **5,005,574** |
| **Net book value** | | | | | | | |
| **31 December 2019** | **590,000** | **460,000** | **767,798** | **188,188** | **12,179** | **489,408** | **2,507,573** |
| **Year ended 31 December 2020** | | | | | | | |
| 1 January 2020 | 590,000 | 460,000 | 2,781,063 | 2,176,837 | 117,024 | 1,388,223 | 7,513,147 |
| Additions | - | - | 64,651 | 95,931 | - | 49,030 | 209,612 |
| **31 December 2020** | **590,000** | **460,000** | **2,845,714** | **2,272,768** | **117,024** | **1,437,253** | **7,722,759** |
| **Depreciation** | | | | | | | |
| 1 January 2020 | - | - | 2,013,265 | 1,988,649 | 104,845 | 898,815 | 5,005,574 |
| Charge for the year | - | 11,099 | 215,627 | 143,847 | 9,530 | 127,196 | 507,294 |
| **31 December 2020** | **-** | **11,099** | **2,228,887** | **2,132,496** | **114,375** | **1,026,011** | **5,512,868** |
| **Net book value** | | | | | | | |
| **31 December 2020** | **590,000** | **448,901** | **616,827** | **140,272** | **2,649** | **411,242** | **2,209,891** |

The land and buildings were re-valued as at 31 December 2019 by Amazon Valuers Limited, Registered Valuers who are independent of the Group. Valuations for the properties were made on the basis of the open market value.
In accordance with IFRS 13, the fair value ranking of the freehold land and buildings is at Level 3. The net book value of the building had revaluation not taken place would have been Ksh 302,005,000 (2019: Ksh 378,526,000)

# NOTES (Continued)

## 23 Intangible assets – Computer software

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Cost | | | | |
| 1 January | 1,506,108 | 1,281,669 | 1,478,453 | 1,254,014 |
| Additions | 36,284 | 39,291 | 36,284 | 39,291 |
| work in progress | - | 185,148 | - | 185,148 |
| **31 December** | **1,542,392** | **1,506,108** | **1,514,736** | **1,478,453** |
| **Amortisation** | | | | |
| 1 January | 1,019,265 | 899,970 | 1,010,880 | 894,684 |
| Charge for the year | 123,771 | 119,295 | 119,567 | 116,196 |
| **31 December** | **1,143,036** | **1,019,265** | **1,130,447** | **1,010,880** |
| **Net book value** | | | | |
| **31 December** | **399,356** | **486,843** | **384,289** | **467,573** |

The intangible assets are in respect of computer software purchase costs

## 24 Prepaid operating lease rentals

| | 2020 | 2019 |
|---|---|---|
| | Kshs 000 | Kshs 000 |
| **Leasehold land:** | | |
| **Cost** | | |
| 1 January and 31 December | 180,335 | 180,335 |
| **Amortisation** | | |
| 1 January | 41,115 | 36,450 |
| Charge for the year | 4,637 | 4,665 |
| **31 December** | **45,752** | **41,115** |
| **Net book value** | | |
| **31 December** | **134,583** | **139,220** |

## 25 Customer deposits

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Customer deposits | | | | |
| Current and demand accounts | 42,252,707 | 34,635,331 | 42,256,216 | 34,652,969 |
| Savings accounts | 3,742,209 | 3,538,458 | 3,742,209 | 3,538,459 |
| Fixed deposit accounts | 23,761,853 | 19,880,696 | 24,126,953 | 20,084,143 |
| | **69,756,770** | **58,054,485** | **70,125,378** | **58,275,571** |

## NOTES (Continued)

### 25 Customerdeposits (continued)

| Maturity analysis of customer deposits | Group 2020 Kshs 000 | Group 2019 Kshs 000 | Bank 2020 Kshs 000 | Bank 2019s Kshs 000 |
|---|---|---|---|---|
| Repayable: | | | | |
| On demand | 42,252,882 | 34,635,331 | 42,256,390 | 34,652,969 |
| Within one year | 27,435,457 | 23,363,628 | 27,800,557 | 23,567,076 |
| 1-5 years | 68,431 | 55,526 | 68,431 | 55,526 |
| | **69,756,770** | **58,054,485** | **70,125,378** | **58,275,571** |

The Weighted average effective interest rate on interest bearing customer deposits at 31 December 2020 was 8.02% (2019 – 8.49 % The related party transactions and balances are covered under Note 35 and concentration of customers' deposits is covered under Note 4.

### 26 Borrowings – Group & Bank

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| a) Analysis | | |
| European Investment Bank (EIB) | 764,221 | 1,550,171 |
| OIKO Credit | 169,870 | 338,538 |
| Waste Finish Ink | 10,864 | 10,864 |
| Water Credit Alternative Channels | 2,901 | - |
| | 947,856 | 1,899,573 |
| Subordinated Bond | 2,072,341 | 2,071,394 |
| Unamortized origination fees | (3,049) | (16,288) |
| | **3,017,148** | **3,954,679** |
| b) Movement: | | |
| At beginning of the year | 3,954,679 | 4,903,207 |
| Proceeds from borrowings | 7,284 | - |
| Repayments in the year | (944,815) | (948,528) |
| **At end of the year** | **3,017,148** | **3,954,679** |

NOTES (Continued)

**26 Borrowings – Group & Bank**

The table below summarises the terms for the borrowings:

| Lender | Outstanding amount in denominated currency | Currency | Repayment period | Maturity date | Interest rate |
|---|---|---|---|---|---|
| | Kshs 000 | | | | |
| EIB | 764,221 | Euro | 7yrs | January 2021 and January 2023 | 9.78% |
| OIKO | 169,870 | Kshs | 6yrs | May 2021 | Based on 91 day T bill capped at 10% |
| Subordinated Bond | 2,018,000 | Kshs | 5yrs | April 2021 | fixed bond -13.5% mixed rate bond 14% Floating rate bond - referenced 182-day Treasury bill rate subject to a floor of 12.5% and a cap of 17.5% |

Interest in EIB is repaid on the 10 of July and 10 of January of every year.
Interest on OIKO is repaid quarterly in February, May, August November every year
Interest accrued on the subordinated bond is repaid bi-annually.

Under the terms of the loan facilities, the Bank is required to comply with certain financial covenants. While the company had not defaulted on any payments during the year, it had not met the portfolio at risk requirement for OIKO credit due to the difficult business environment due to Covid 19. A waiver has been obtained subsequent to year end. The borrowing is classified as current.

The Bank remains compliant to the agreed conditional waivers granted by EIB

**27 Provisions and other liabilities**

| Group and Bank | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| (a) Provisions and accruals | | |
| Opening balance | 383,118 | 315,527 |
| Additional provisions | 170,919 | 67,591 |
| Closing balance | 554,037 | 383,118 |
| Leave pay accrual | 33,840 | 41,488 |
| | **587,877** | **424,606** |

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 Kshs 000 | 2019 Kshs 000 | 2020 Kshs 000 | 2019 Kshs 000 |
| (b) Other liabilities | | | | |
| Cheques for collection | 62,427 | 85,650 | 62,427 | 85,650 |
| Advance loan processing fee | 739,519 | 786,656 | 739,519 | 786,656 |
| Accounts payable | 31,642 | 72,362 | 31,641 | 72,362 |
| Revenue collected on behalf of revenue authorities | 118,448 | 284,797 | 118,448 | 284,797 |
| Other payables | 703,787 | 720,051 | 560,831 | 648,061 |
| | **1,655,823** | **1,949,516** | **1,512,866** | **1,877,526** |

Other liabilities are current.

## NOTES (Continued)

### 28 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2019 - 30%). The movements in the deferred income tax account were as follows:

| Group | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| **At start of year** | 1,420 | 8,891 |
| (credit)/charge to profit or loss | (324) | 886 |
| Under/(over) provision in prior year | 30 | (8,357) |
| **Deferred income tax liability end of year** | **1,126** | **1,420** |

Deferred income tax liability arises from temporary differences in the subsidiary, Family Bank Insurance Agency Limited.

| Group and Bank | | |
|---|---|---|
| At start of year | 885,542 | 527,302 |
| Credit to profit or loss | 636,564 | 256,296 |
| Charge/(credit) to other comprehensive income | 4,133 | (27,772) |
| Overprovision in prior year | 26,440 | 129,716 |
| **Deferred income tax asset end of year** | **1,552,679** | **885,543** |

| Deferred income tax asset (Group and Bank) | Balance at 1 January | Prior year over/(under) provision | Recognised in profit or loss | Recognised in Other comprehensive income | Balance at 31 December |
|---|---|---|---|---|---|
| **2020** | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Property and equipment | 47,300 | 26,440 | 70,625 | - | 144,365 |
| Other deductible differences | 838,242 | - | 565,939 | 4,133 | 1,408,314 |
| | **885,542** | **26,440** | **636,564** | **4,133** | **1,552,679** |
| **2019** | | | | | |
| Property and equipment | 40,586 | - | 34,486 | (27,772) | 47,300 |
| Other deductible differences | 486,716 | 129,716 | 221,810 | - | 838,242 |
| | **527,302** | **129,716** | **256,296** | **(27,772)** | **885,542** |

# NOTES (Continued)

## 28 Deferred income tax (continued)

| Deferred income tax liability (Group) | Balance at 1 January | Prior year (over)/under provision | Recognised in profit or loss | Balance at 31 December |
|---|---|---|---|---|
| **2020** | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Property and equipment | 1,525 | 29 | (278) | 1,276 |
| Other deductible differences | (104) | - | (46) | (150) |
| | **1,421** | **29** | **(324)** | **1,126** |
| **2019** | | | | |
| Property and equipment | 535 | - | 990 | 1,525 |
| Other deductible differences | 8,356 | (8,356) | (104) | (104) |
| | **8,891** | **(8,356)** | **886** | **1,421** |

## 29 Share Capital

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Authorised: | | |
| 1,500,000,000 ordinary shares of Sh1 each | 1,500,000 | 1,500,000 |
| 1,287,107,542 ordinary shares of Sh 1 each | 1,287,108 | 1,287,108 |

Movement in issued and fully paid shares

| | Number of shares | Share capital Sh '000 | Share premium Sh '000 | Total Kshs 000 |
|---|---|---|---|---|
| 1 January 2019 | 1,287,107,542 | 1,287,108 | 5,874,662 | 7,161,770 |
| **31 December 2019** | **1,287,107,542** | **1,287,108** | **5,874,662** | **7,161,770** |
| 1 January 2020 | 1,287,107,542 | 1,287,108 | 5,874,662 | 7,161,770 |
| **31 December 2020** | **1,287,107,542** | **1,287,108** | **5,874,662** | **7,161,770** |

There was no change in the share capital for the year ended 31 December 2020.

NOTES (Continued)

### 30 Other reserves

#### 30.1 Revaluation surplus

This represents solely the revaluation of building and freehold land net of deferred income tax and is non-distributable.

#### 30.2 Statutory reserve

The reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non- distributable.

#### 30.3 Fair value reserve

The fair value reserve comprises of the cumulative net change in the fair value of FVOCI financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

### 31 Notes to the statement of cash flows

a) Reconciliation of profit before taxation to cash flow from operations

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| Profit before taxation | 1,440,653 | 1,422,829 | 1,325,612 | 1,352,237 |
| **Adjustments for:** | | | | |
| Depreciation of property and equipment | 508,788 | 544,241 | 507,294 | 542,223 |
| Amortization of prepaid operating lease rentals | 4,637 | 4,665 | 4,637 | 4,665 |
| Interest income earned | (9,386,726) | (7,515,819) | (9,386,726) | (7,515,819) |
| Interest expense incurred | 2,595,897 | 2,253,464 | 2,615,024 | 2,264,387 |
| Amortization of intangible assets | 123,771 | 119,295 | 119,567 | 116,196 |
| Depreciation of right of use asset | 453,105 | 518,780 | 453,105 | 518,780 |
| Interest expense on lease liability | 174,804 | 167,457 | 174,804 | 167,457 |
| **Changes in working capital items:** | | | | |
| Cash reserve ratio | (1,274,485) | (779,256) | (1,274,485) | (779,256) |
| Financial assets at FVOCI | (7,050,916) | - | (7,050,916) | - |
| Financial assets at amortised cost | (714,017) | (1,241,101) | (714,017) | (1,241,101) |
| Financial assets at FVPL | 595,718 | (1,662,515) | 595,718 | (1,662,515) |
| Corporate bond | 399,847 | (7,075) | 399,847 | (7,075) |
| Loans and advances | (5,985,359) | (6,481,346) | (5,985,359) | (6,481,346) |
| Other investments | 1,258,273 | 266 | 1,258,273 | 266 |
| Other assets | (58,622) | 451,367 | (51,962) | 473,169 |
| Customer deposits | 11,702,285 | 9,716,880 | 11,849,807 | 9,716,880 |
| Provisions | 163,271 | (9,966) | 163,271 | (12,051) |
| Other liabilities | (293,694) | 505,155 | (364,660) | 552,790 |
| **Cash generated from operations** | **(5,342,770)** | **(1,992,679)** | **(5,361,166)** | **(1,990,113)** |
| | ========= | ========= | ========= | ========= |

Interest income earned and interest expense incurred have been included within the cash generated from operations in the prior year balances for consistency with the presentation in the current year. This has also been amended in the main cashflow included under page 56.

# NOTES (Continued)

## 31 Notes to the statement of cash flows (continued)

b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | Sh '000 | Sh '000 | Sh '000 | Sh '000 |
| Balances with Central Bank of Kenya - Cash | 4,038,445 | 3,394,733 | 4,038,445 | 3,394,733 |
| Balances with other banking institutions | 819,406 | 2,779,374 | 819,406 | 2,779,374 |
| Balances due to other banking institutions | (451,741) | (56,906) | (451,741) | (56,906) |
| | **4,406,110** | **6,117,201** | **4,406,110** | **6,117,201** |

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or below, less advances from banks repayable within three months from the dates of the advances.

## 32 Operating segments

For management purposes, the Bank is organised into two main operating segments based on products and services as follows:

i) Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
ii) Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Group basis and are not allocated to operating segments.
The Group's segment operations are all financial with a majority of revenues dersiving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.
The following table presents income and profit and certain asset and liability information regarding the Group's operating segments,

## NOTES (Continued)

### 32 Operating segments (continued)

**Profit or loss for the year ended 31 December 2020**

| | Wholesale banking | Retail banking | Other | Total |
|---|---|---|---|---|
| Interest income | 3,754,690 | 5,632,036 | - | 9,386,726 |
| Interest expense | (1,038,359) | (1,557,538) | - | (2,595,897) |
| Net interest income | **2,716,332** | **4,074,497** | **-** | **6,790,829** |
| Fee and commission income | 708,711 | 1,063,066 | 167,979 | 1,939,756 |
| Fee and commission expense | (109,457) | (164,186) | - | (273,643) |
| Net fees and commission income | **599,254** | **898,880** | **167,979** | **1,666,113** |
| Investment income | 47,750 | 71,625 | - | 119,375 |
| Net trading income | 136,545 | 204,817 | - | 341,362 |
| Other income | 160,074 | 240,111 | | 400,185 |
| Operating income | **3,659,954** | **5,489,931** | **167,979** | **9,317,864** |
| Operating expenses | (2,230,465) | (3,345,697) | (72,066) | (5,648,228) |
| Credit impairment losses | (891,593) | (1,337,390) | - | (2,228,983) |
| Profit before taxation | **537,896** | **806,844** | **95,913** | **1,440,653** |
| Income tax expense | (99,826) | (149,739) | (28,568) | (278,133) |
| Other comprehensive income | | (13,777) | | |
| Profit for the year | **438,070** | **643,328** | **67,345** | **1,148,743** |
| **Profit or loss for the year ended 31 December 2019** | | | | |
| Interest income | 3,006,328 | 4,509,491 | - | 7,515,819 |
| Interest expense | (901,386) | (1,352,078) | - | (2,253,464) |
| **Net interest income** | **2,104,942** | **3,157,413** | **-** | **5,262,355** |
| Fee and commission income | 780,898 | 1,171,346 | 115,273 | 2,067,517 |
| Fee and commission expense | (104,388) | (156,581) | - | (260,969) |
| **Net fees and commission income** | **676,510** | **1,014,765** | **115,273** | **1,806,548** |
| Investment income | 65,769 | 98,654 | - | 164,423 |
| Net trading income | 156,304 | 234,456 | - | 390,760 |
| Other income | 109,085 | 163,628 | 70,592 | 343,305 |
| **Operating income** | **3,112,610** | **4,668,916** | **185,865** | **7,967,391** |
| Operating expenses | (2,082,420) | (3,123,630) | (55,603) | (5,261,653) |
| Credit impairment losses | (513,164) | (769,745) | - | (1,282,909) |
| **Profit before taxation** | **517,027** | **775,540** | **130,262** | **1,422,829** |
| Income tax expense | (182,511) | (273,770) | (16,713) | (472,994) |
| Other comprehensive income | 34,320 | 51,480 | - | 85,800 |
| **Profit for the year** | **368,836** | **553,250** | **113,549** | **1,035,635** |

NOTES (Continued)

## 32 Operating segments (continued)

### Statement of financial position as at 31 December 2020

| | Wholesale banking Sh' 000 | Retail banking Sh' 000 | Others Sh' 000 | Total Sh' 000 |
|---|---|---|---|---|
| **Assets** | 36,088,406 | 54,132,611 | 439,779 | 90,660,797 |
| Liabilities and equity: | 36,326,234 | 54,475,827 | (141,264) | 90,660,797 |
| Inter-segment lending | (117,879) | (176,818) | 294,697 | - |
| **Total liabilities and equity** | **36,208,355** | **54,299,009** | **153,433** | **90,660,797** |
| Other disclosures | - | - | - | - |
| **Capital expenditure** | **88,812** | **133,218** | **-** | **221,031** |

### Statement of financial position as at 31 December 2019

| | Wholesale banking Sh' 000 | Retail banking Sh' 000 | Others Sh' 000 | Total Sh' 000 |
|---|---|---|---|---|
| **Assets** | 31,454,016 | 47,181,026 | 282,630 | 78,917,672 |
| Liabilities and equity: | 31,623,815 | 47,435,727 | (141,870) | 78,917,672 |
| Inter-segment lending | (83,289) | (124,934) | 208,222 | - |
| **Total liabilities and equity** | **31,540,526** | **47,310,794** | **66,353** | **78,917,672** |
| Other disclosures | - | - | - | - |
| **Capital expenditure** | **54,783** | **82,174** | **-** | **136,957** |

## NOTES (Continued)

### 33 Leases

**The Bank as a lessee**
**(a) Right of use asset**

The Bank leases a number of branch and office premises as well as ATM lobby spaces. The leases typically run for a period between 3 and 6 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

Movements in right of use assets in the year is shown below:

| | 2020 Shs' 000 | 2019 Shs' 000 |
|---|---|---|
| At start of year | 2,039,151 | 2,039,151 |
| Additions | 416,337 | - |
| Depreciation | (971,885) | (518,780) |
| **At end of year** | **1,483,603** | **1,520,371** |
| | ======== | ======== |
| Cost | | |
| At start of year | 2,039,151 | 2,039,151 |
| Additions | 416,337 | - |
| **At end of year** | **2,455,488** | **2,039,151** |
| **Accumulated depreciation** | | |
| At start of year | (518,780) | - |
| Charge for the year | (453,105) | (518,780) |
| **At end of year** | **(971,885)** | **(518,780)** |
| **Net carrying amount at end of year** | **1,483,603** | **1,520,371** |
| | ========= | ========= |

i) Amounts recognised in the statement of profit or loss
The statement of profit or loss shows the following amounts relating to leases:

| | 2020 | 2019 |
|---|---|---|
| Amortisation of right of use asset | 453,105 | 518,780 |
| Interest expense (included in Operating and other administrative expenses) | 174,804 | 167,457 |
| Expense relating to short-term leases (included in administrative expenses) | - | - |
| | ========= | ========= |

## NOTES (Continued)

### 33 Leases (continued)

### The Bank as a lessee

#### (b) Lease liabilities

| | 2020<br>Kshs 000 | 2019<br>Kshs 000 |
|---|---|---|
| Current | 414,871 | 378,080 |
| Non-current | 1,192,205 | 1,191,459 |
| **At end of year** | **1,607,076** | **1,569,539** |

The movement in the lease liabilities for group and Bank was as follows:

| | 2020<br>Kshs 000 | 2019<br>Kshs 000 |
|---|---|---|
| At start of year | 1,569,539 | 1,801,867 |
| Additions during the year | 416,337 | - |
| Interest expense on leases | 174,804 | 167,457 |
| Repayments | (553,604) | (399,785) |
| **At end of year** | **1,607,076** | **1,569,539** |

### 34 Contingencies and commitments including off balance sheet items

#### a) Contingent liabilities

In common with other financial institutions, the Group conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

| | 2020<br>Kshs 000 | 2019<br>Kshs 000 |
|---|---|---|
| Guarantees | 7,060,571 | 5,141,962 |
| Letters of credit | 1,108,120 | 473,677 |
| | **8,168,691** | **5,615,639** |
| Litigations against the Group | **264,694** | **187,121** |

## NOTES (Continued)

**34 Contingencies and commitments including off balance sheet items (continued)**
**a) Contingent liabilities (continued)**

**Nature of contingent liabilities:**

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

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

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

Concentrations of contingent liabilities are covered under note 4.

**Litigations against the Group**

Litigations against the group relate to civil suits lodged against the group by customers and employees 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.

**b) Commitments to extend credit**

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Undrawn formal stand-by facilities, credit lines and other commitments to lend | 6,042,645 | 2,488,635 |
| | ========= | ========= |

Commitments to extend credit are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The group may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

**c) Capital commitments**

| | 2020 Kshs 000 | 2019 Kshs 000 |
|---|---|---|
| Authorised and contracted for | 135,378 | 232,943 |
| | ========= | ========= |
| Authorised but not contracted for | 23,521 | 121,084 |
| | ========= | ========= |

# NOTES (Continued)

## 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.

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | KShs '000 | Sh '000 | KShs '000 | KShs '000 |
| **(a) Loans and advances** | | | | |
| 1 January | 3,509,466 | 3,590,559 | 3,509,466 | 3,590,559 |
| Additions | 549,526 | 1,151,624 | 549,526 | 1,151,624 |
| Interest charged | 288,872 | 291,408 | 288,872 | 291,408 |
| Repayments | (1,415,183) | (1,524,125) | (1,415,183) | (1,524,125) |
| **31 December** | **2,932,681** | **3,509,466** | **2,932,681** | **3,509,466** |

As at 31 December 2020 loans and advances to staff amounted to Sh 1,381,113,000 (2019 – Sh 1,184,169,000). The loans and advances to related parties are performing and adequately secured.

| | Directors | Companies associated to directors | Total |
|---|---|---|---|
| | Sh '000 | Sh '000 | Sh '000 |
| **(b) Deposits – Group and bank** | | | |
| At 1 January 2019 | 404,883 | 7,406 | 412,289 |
| Withdrawals | (394,936) | (1,896) | (396,832) |
| **31 December 2019** | **9,947** | **5,510** | **15,457** |
| 1 January 2020 | 9,947 | 5,510 | 15,457 |
| Withdrawals | - | - | - |
| **31 December 2020** | **9,947** | **5,510** | **15,457** |

**Key management compensation**

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

| | Group | | Bank | |
|---|---|---|---|---|
| Short term benefits | 2020 | 2019 | 2020 | 2019 |
| | Kshs 000 | Kshs 000 | Kshs 000 | Kshs 000 |
| Salaries and other benefits | 119,006 | 110,464 | 119,006 | 110,464 |
| Directors' emoluments | 132,133 | 100,906 | 118,606 | 95,416 |

# Notes

# Notes

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# Notes

# PROXY FORM

Shareholder's Name: ..............................................

**Share Account No.** ...............

The Company Secretary
Family Bank Limited
8th Floor, Family Bank Towers.
P. O. Box 74145-00200
Nairobi

## PROXY FORM

I/We ................................................................................................................................ of P. O. Box ..................................................
being a shareholder(s) of Family Bank Limited, appoint

**Name:** ..............................................................................
**Postal Address:** ..............................................................................
**ID No.:** ..............................................................................
**Mobile Number:** ..............................................................................
**Email Address:** ..............................................................................

and failing him / her, **the chairman of the meeting** to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Bank to be held on Tuesday 29th June 2021 at 9:00 am via electronic communication and / or at any adjournment thereof. This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he/she deems fit.

As witnessed by my/our hand(s) this .................day of ................................................. 2021

Signed........................................................................................ Signed..................................................................................

ID No......................................................................................... ID No.....................................................................................

## NOTES

1. A member who is unable to attend the virtual meeting is entitled to appoint a proxy to access and vote on his or her behalf.

2. In the case of a corporate body, the proxy must be under its common seal or under the hand of an officer or attorney duly authorized in writing.

3. Joint account holders must state their joint names and sign according to their signing mandates.

4. A completed form of proxy should be emailed to familybankagm@image.co.ke and copy to shares@familybank.co.ke or delivered to Image registrars at 5th floor, ABSA Towers (Formerly Barclays Plaza), Loita Street or Shares Registry Office at Family Bank Towers, 8th Floor, so as to be received not later than Saturday 26th June 2021 at 12:00PM. When nominating a proxy the ID/Passport No, email and/or mobile number details of the proxy must be submitted to facilitate registration.

5. Any proxy registration that is rejected will be communicated to the Shareholders concerned no later than Monday 28th June 2021 at 9.00am to allow time to address any issues.

6. Shareholders wishing to raise any questions for the AGM may do so prior to the AGM (during the registration open period) through familybankagm@image.co.ke or by dialing the USSD code *483*251# and follow the prompts.

7. A proxy need not be a member.

Family Bank
With you, for life

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Email: info@familybank.co.ke | Website: www.familybank.co.ke