FAMILY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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DIRECTORS

Non-Executive

Dr. Wilfred D. Kiboro	-Chairman
Mr. Francis Gitau Mungai	-Vice Chairman
Mr. Titus K. Muya	
Mr. Lazarus Muema	
Ms. Mary Njeri Mburu	
Dr. Ruth Waweru	-Retired 29 June 2021
Mr. Lerionka S. Tiampati	-Retired 02 November 2021

Executive

Ms.Rebecca Mbithi- Managing Director and CEO

COMPANY SECRETARY

Mr. Eric K. Murai
Certified Secretary
8th Floor, Family Bank Towers,
Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi
Tel: 254-2-318173/318940/2/7/0720 098 300
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: 254-2-318173/318940/2/7/0720 098 300
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
6 Bishopsgate
London
EC2P 2AT
United Kingdom

DZ Bank AG
60265 Frankfurt am Main

Deutsche Bank Trust Company Americas
P O Box 318, Church Street Station
New York, New York 10008 – 0318

BOARD COMMITTEES

Credit Committee
Mr. Francis Mungai - Chairman
Mr. Titus K. Muya
Dr. Wilfred D. Kiboro
Ms. Rebecca Mbithi

Audit Committee
Mr. Lazarus Muema - Chairman
Ms. Mary Mburu

Risk Management and Compliance Committee

Ms. Mary Mburu - Chairman
Mr. Lazarus Muema

Human Resource Committee
Mr. Francis Mungai - Chairman
Ms. Mary Mburu
Mr. Titus K. Muya
Dr. Wilfred D. Kiboro
Mr. Francis Mungai
Ms. Rebecca Mbithi

Strategy Committee
Mr. Lazarus Muema - Chairman
Mr. Titus K. Muya
Dr. Wilfred D. Kiboro
Ms. Rebecca Mbithi

Nomination Committee
Dr. Wilfred D Kiboro - Chairman
Mr. Titus K. Muya
Mr. Francis Mungai

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, 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 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 behavior.

This year has been a particularly challenging period for the Group, our customers, and the economy at large due to the Covid-19 pandemic. Amid the challenges, the Group's performance has remained resilient . In 2021 we saw a number of sectors recover with increased demand for borrowing and improved repayments from customers who had earlier been granted loan payment moratoriums. Non funded income however grew at a lower than expected pace as waivers on bank to mobile charges continued to be in place.

The Group recorded a significantly improved performance from a total comprehensive income of Kshs 2.12 B in 2021 to Kshs1.15B 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 increased by 16% corresponding to net increase in the loans and advances which increased by 18% while customer deposits increased by 17%. Non funded income improved by 13% .

The following is the summary of the results for the year ended 31 December 2021:

	Group		Bank	
	2021	2020	2021	2020
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Profit before taxation	3,336,847	1,440,653	3,144,669	1,325,613
Taxation	(1,028,201)	(278,133)	(969,392)	(249,566)
Profit for the year	2,308,646	1,162,520	2,175,277	1,076,047
Other Comprehensive income (net of tax)	(172,561)	(13,777)	(172,561)	(13,777)
Total comprehensive income	**2,136,085**	**1,148,743**	**2,002,716**	**1,062,270**

DIVIDEND

The directors do recommend payment of a dividend in respect to 2021 of Ksh 1.09 billion the year ended 31 December 2021 of Ksh (2020: Nil).

DIRECTORS

The Directors who held office at the date of this report are set out on page 1.

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 continues 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
SECRETARY

31 MARCH 2022

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 2022 and signed on its behalf by:

Director

Managing Director &CEO

pwc

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 10 to 91, which comprise the consolidated statement of financial position at 31 December 2021 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 2021, 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 2021 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.

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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

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

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 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. The policies for estimating ECL are explained in notes 3 (a) and 4.1 of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • 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 • the relevance of forward-looking information used in the models; Variations in the assumptions and judgments applied in the models could result in material changes in the outcomes.	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: • review of the Group methodology for determining ECL, including enhancements in the year, and evaluation against the requirements of IFRS 9; • tested how the Group extracts 'days past due" (DPD)' data 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 • review of judgments applied in the staging of loans and advances; • 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; • For LGD, we tested the assumptions on the timing of the recovery 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; • tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures; • For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios. • 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 Annual Report which is 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 Annual Report 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.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 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 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 applicable 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 3 and 4 is consistent with the financial statements.

Richard Njoroge

FCPA Richard Njoroge, Practicing Certificate Number 1244
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi
31 March **2022**

Statement of profit or loss and other comprehensive income

	Notes	Consolidated 2021 Kshs 000	Consolidated 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Interest income	6(a)	11,156,351	9,386,726	11,156,351	9,386,726
Interest expense	7	(3,241,600)	(2,770,700)	(3,273,697)	(2,789,828)
Net interest income		7,914,751	6,616,026	7,882,654	6,596,898
Fee and commission income	8(a)	2,340,395	1,939,756	2,340,395	1,939,756
Fee and commission expense	8(b)	(302,274)	(273,643)	(302,274)	(273,643)
Net fees and commission income		2,038,121	1,666,113	2,038,121	1,666,113
Investment income	6(b)	120,423	119,375	120,423	119,375
Net trading income		297,421	341,361	297,421	341,362
Other income	8(c)	397,929	400,185	167,084	232,207
Operating income		10,768,645	9,143,060	10,505,703	8,955,955
Operating expenses	9	(6,155,660)	(5,473,424)	(6,084,896)	(5,401,359)
Credit impairment losses	16 (b)	(1,276,138)	(2,228,983)	(1,276,138)	(2,228,983)
Profit before taxation		3,336,847	1,440,653	3,144,669	1,325,613
Income tax expense	11	(1,028,201)	(278,133)	(969,392)	(249,566)
Profit for the year		2,308,646	1,162,520	2,175,277	1,076,047
Other comprehensive income					
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)		(172,561)	(13,777)	(172,561)	(13,777)
Total other comprehensive income		(172,561)	(13,777)	(172,561)	(13,777)
Total comprehensive income for the year		2,136,085	1,148,743	2,002,716	1,062,270
Earnings per share (basic and diluted) (Kshs)	12	1.66	0.9	1.56	0.84

Statement of financial position

	Notes	Consolidated 2021 Kshs 000	Consolidated 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
ASSETS					
Cash and balances with CBK	13	8,212,917	8,879,521	8,212,917	8,879,521
Balances due from banking institutions	14(a)	4,287,227	819,406	4,287,227	819,406
Government securities:					
-At amortised cost	15	13,584,768	8,901,395	13,573,762	8,901,395
-At fair value through profit or loss	15	1,568,955	1,066,797	1,568,955	1,066,797
-At fair value through other comprehensive income	15	9,546,922	7,033,006	9,546,922	7,033,006
Other investments	19	1,355,980	126,804	1,355,980	126,804
Current income tax		3,336	27,904	-	-
Other assets	18	1,006,508	1,421,545	968,371	1,394,454
Loans and advances to customers	16	66,901,824	56,579,798	66,901,824	56,579,798
Investment in subsidiary	20	-	-	10,000	1,000
Investment properties	21	23,400	23,400	23,400	23,400
Property and equipment	22	2,061,977	2,211,001	2,061,386	2,209,891
Intangible assets	23	326,111	399,355	315,251	384,289
Right of use of assets	33	919,407	1,483,603	919,407	1,483,603
Prepaid operating leases	24	132,553	134,583	132,553	134,583
Deferred income tax	28	1,805,110	1,552,679	1,805,110	1,552,679
TOTAL ASSETS		111,736,995	90,660,797	111,683,065	90,590,626
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Customer deposits	25	81,911,523	69,756,770	82,430,537	70,125,378
Balances due to banking institutions	14(b)	2,281,200	451,741	2,281,200	451,741
Current income tax		263,148	126,975	263,148	126,975
Provisions	27(a)	549,497	587,877	549,497	587,877
Other liabilities	27(b)	1,757,548	1,655,823	1,613,430	1,512,866
Borrowings	26	8,241,794	3,017,148	8,241,794	3,017,148
Lease liability	33	1,139,178	1,607,076	1,139,178	1,607,076
Deferred income tax	28	761	1,126	-	-
TOTAL LIABILITIES		96,144,649	77,204,536	96,518,784	77,429,061
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		(186,338)	(13,777)	(186,338)	(13,777)
Retained earnings		6,881,691	6,029,844	6,453,626	5,735,148
Statutory reserve		369,161	-	369,161	-
Proposed dividends		1,087,638	-	1,087,638	-
TOTAL SHAREHOLDERS' FUNDS		15,592,346	13,456,261	15,164,281	13,161,565
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		111,736,995	90,660,797	111,683,065	90,590,626

The financial statements on pages 10 to 91 were approved for issue by the board of directors on 31 MARCH 2022 and were signed on its behalf by:

Director

Director

Consolidated 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	Proposed Dividend	Statutory reserve Kshs 000	Total Kshs 000
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)
Transaction with owners in their capacity as owners								
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
Year ended 31 December 2021								
At start of year	1,287,108	5,874,662	278,424	(13,777)	6,029,844	-	-	13,456,261
Comprehensive income								
Profit for the year	-	-	-	-	2,308,646	-	-	2,308,646
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend	-	-	-	-	(1,087,638)	1,087,638	-	-
At 31 December 2021	1,287,108	5,874,662	278,424	(186,338)	6,881,691	1,087,638	369,161	15,592,346

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	Proposed Dividend	Statutory reserve Kshs 000	Total Kshs 000
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)
Transaction with owners in their capacity as owners								
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
Year ended 31 December 2021								
At start of year	1,287,108	5,874,662	278,424	(13,777)	5,735,148	-	-	13,161,565
Comprehensive income								
Profit for the year	-	-	-	-	2,175,277	-	-	2,175,277
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend					(1,087,638)	1,087,638	-	-
At 31 December 2021	1,287,108	5,874,662	278,424	(186,338)	6,453,626	1,087,638	369,161	15,164,281

Statement of cash flows

	Note	Consolidated 2021 Kshs 000	Consolidated 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Cash flows from operating activities					
Cash used in operations	31(a)	(9,665,895)	(5,303,464)	(9,659,402)	(5,361,165)
Interest received		11,156,351	9,386,726	11,156,351	9,386,726
Interest paid		(3,097,879)	(2,635,202)	(3,138,199)	(2,615,024)
Tax paid		(1,175,209)	(1,113,031)	(1,141,382)	(1,075,689)
Net cashflows from operating activities		(2,782,632)	335,029	(2,782,632)	334,848
Cash flows from investing activities					
Purchase of intangible assets	23	(64,351)	(36,284)	(64,351)	(36,284)
Purchase of property and equipment	22	(280,650)	(209,793)	(280,650)	(209,612)
Net cash flows from investing activities		(345,001)	(246,077)	(345,001)	(245,896)
Cash flows from financing activities					
Proceeds from borrowings	26	7,925,612	7,284	7,925,612	7,284
Repayment of borrowing	26	(2,695,779)	(944,815)	(2,695,779)	(944,815)
Payment of principal portion of lease liabilities	33	(541,714)	(553,604)	(541,714)	(553,604)
Dividends paid		-	(308,908)	-	(308,908)
Net cash flows from financing activities		4,688,119	(1,800,043)	4,688,119	(1,800,043)
(Decrease)/ increase in cash and cash equivalents		1,560,486	(1,711,091)	1,560,486	(1,711,091)
Cash and cash equivalents at start of the year		4,406,110	6,117,201	4,406,110	6,117,201
Cash and cash equivalents at end year	31(b)	5,966,596	4,406,110	5,966,596	4,406,110

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.

(ii) 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)

Changes in accounting policy and disclosures

(i) New and amended standards not yet adopted by the Bank

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 *Leases* which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

* The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

These amendments did not have a material impact on the Group's financial statements

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures

ii)Standards, amendments and interpretations issued but not yet effective

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 noncurrent, 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 deferred from 1 January 2022 to 1 January 2023 also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their *material* rather than their *significant* accounting policies. The amendments effective 1 January 2023 define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 *Making Materiality Judgements* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors effective 1 January 2023* clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 *Income Taxes* require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

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

Notes (Continued)

2 Significant accounting policies (continued)

(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.

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.

Notes (Continued)

2 Significant accounting policies (continued)

(a) Consolidation (continued)

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.

(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

Notes (Continued)

2 Significant accounting policies (continued)

(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 accounts for its financial instruments in line with IFRS 9 which establishes 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 recycled through profit and loss for debt 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

***(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.

Notes (continued)

2. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(i) Financial Assets (continued)

(b) Recognition and subsequent measurement continued

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.

(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.

Noted (continued)

2. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

i) **Financial Assets (continued)**
(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.

(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.

Notes (continued)

2. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(ii) Financial liabilities (continued)

(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. Summary of 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 Freehold land and 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.

Notes (continued)

2. Significant accounting policies (continued)

(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 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.

Notes (continued)

2. Significant accounting policies (continued)

(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.

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.

Notes (continued)

2. Significant accounting policies (continued)

(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.

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.

Notes (continued)

2 Significant accounting policies (continued)

(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.

- 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.

Notes (continued)

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.

(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

Risk management framework

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 Bank's subsidiary does not have significant operations. The financial assets and liabilities of the Bank's subsidiary mainly consist of loans from related parties that are eliminated on consolidation and other assets and liabilities that are not material to the Group. Consequently, the financial risk management information presented below relates only to the Bank.

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

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 two non-executive directors to assist in the discharge of this responsibility. The Board has also established the Group Asset and Liability Committee (ALCO), Credit Committee and Risk and Compliance Committee, which are responsible for developing and monitoring risk management policies in their specified areas. With the exception of the ALCO which is a Management Committee, these committees comprise of both non-executive and executive members 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 analyse 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.

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

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.
- 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.

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

Credit risk measurement (continued)

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.

<u>Quantitative Criteria</u>

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.

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.

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

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

<ins>Qualitative Criteria</ins>
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).

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)

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

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.

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

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.

	Exposure 2021 Shs'000	Exposure 2020 Shs'000
On – balance sheet items		
Balances with Central Bank of Kenya	4,252,348	4,841,075
Balances due from other banking institutions	4,287,227	819,407
Government securities at amortised cost	13,573,762	8,901,395
Government securities at fair value through profit or loss	1,568,955	1,066,797
Government securities FVOCI	9,546,922	7,033,006
Loans and advances to customers	66,901,824	56,579,798
Corporate bonds	-	-
Other investments	1,355,980	126,804
Other assets	820,057	1,278,799
	102,307,075	80,647,081
Off-balance sheet items		
Guarantees and letters of credit	8,656,566	8,168,692
	110,963,641	88,815,773

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

The table above represents the worst-case scenarios of credit exposure for 31 December 2021 and 31 December 2020, 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 62% (2020 - 66 %) 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.

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

	2021	2020
Loans and advances to customers	**Kshs 000**	**Kshs 000**
Gross loans and advances to customers	71,974,208	61,300,726
Of which stage 1 and 2	60,917,959	51,909,848
Of which stage 3	11,056,249	9,390,878
Expected credit loss provisions	5,072,384	4,720,929
Of which stage 1 and 2	1,339,188	958,160
Of which stage 3	3,733,196	3,762,769
Net loans and advances to customers	66,901,824	56,579,798
Of which stage 1 and 2	59,578,771	48,472,235
Of which stage 3	7,323,053	8,107,563

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 1.55 billion (2020: Kshs 1.29 billion)

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.

2021	Term loans	Mortgage	Overdraft and credit cards	Total	Off Balance Sheet
Loans and advances to customers	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Gross loans and advances to customers	59,693,703	9,074,329	3,206,176	71,974,208	1,742,217
Of which stage 1 and 2	50,766,700	7,487,440	2,663,819	60,917,959	1,742,217
Of which stage 3	8,927,003	1,586,889	542,357	11,056,249	-
Expected credit loss provisions	4,579,090	214,022	279,272	5,072,384	553
Of which stage 1 and 2	1,225,536	56,848	56,804.00	1,339,188	553
Of which stage 3	3,353,554	157,174	222468	3,733,196	
Net loans and advances to customers	55,114,613	8,860,307	2,926,904	66,901,824	1,741,664
Of which stage 1 and 2	49,541,164	7,430,592	2,607,015	59,578,771	1,741,664
Of which stage 3	5,573,449	1,429,715	319,889	7,323,053	-

2020	Term loans	Mortgage	Overdraft and credit cards	Total	Off Balance Sheet
Loans and advances to customers	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
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	-

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

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

Dec -2021	**Stage 1**	**Stage 2**	**Stage 3**	
Loss allowance as at 1 January 2021	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Loss allowance as at 1 January 2021	685,192	272,968	3,762,768	4,720,929
Changes in the loss allowance				
Transfer to stage 1	113,303	(69,551)	(43,752)	-
Transfer to stage 2	(25,378)	95,632	(70,254)	-
Transfer to stage 3	(12,703)	(69,561)	82,264	-
New financial assets originated or purchased	367,837	280,774	950,753	1,599,364
Financial assets that have been derecognised	(226,785)	(78,369)	(746,956)	(1,052,112)
Changes in models/risk parameters	(262,871)	282,296	103,823	123,248
Foreign exchange and other movements	(72,955)	59,359	13,595	-
Write-offs	-	-	(319,045)	(319,045)
Loss allowance as at 31 December 2021	**565,641**	**773,547**	**3,733,196**	**5,072,384**

Dec-20	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	Kshs 000	**Kshs 000**	**Kshs 000**	**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**

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (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 2021	41,449,913	3,494,307	6,776,827	51,721,047
Changes in the gross loans				
– Transfer to stage 1	409,045	(260,827)	(148,218)	-
– Transfer to stage 2	(2,719,538)	3,061,184	(341,646)	-
– Transfer to stage 3	(869,240)	(648,137)	1,517,376	-
Changes in models/risk parameters	(5,901,605)	(1,038,357)	(1,174,354)	(8,114,316)
New financial assets originated or purchased	25,156,903	2,463,744	4,673,811	32,294,458
Financial assets that have been derecognised	(12,215,955)	(1,614,739)	(1,868,914)	(15,699,608)
Loans and advances as at 31 December 2021	45,309,523	5,457,176	9,434,882	59,693,703

Mortgage loans	**Stage 1 Kshs 000**	**Stage 2 Kshs 000**	**Stage 3 Kshs 000**	**Total Kshs 000**
Loans and advances as at 1 January 2021	6,600,656	1,113,314	1,003,938	8,717,908
Changes in the gross loans				
– Transfer to stage 1	57,413	(46,422)	(10,991)	-
– Transfer to stage 2	(84,598)	161,841	(77,243)	-
– Transfer to stage 3	(32,277)	(9,114)	41,391	-
Changes in models/risk parameters	(567,206)	(54,340)	(21,258)	(642,805)
New financial assets originated or purchased	3,141,082	467,898	139,154	3,748,134
Financial assets that have been derecognised	(316,705)	(63,869)	(480,327)	(860,901)
Loans and Advances as at 31 December 2021	6,904,527	582,913	1,586,889	9,074,329

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

Overdrafts and credit cards	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Loans and advances as at 1 January 2021	1,720,931	410,958	617,888	2,749,778
Changes in the gross loans				
– Transfer to stage 1	12,519	(11,071)	(1,448)	-
– Transfer to stage 2	(119,409)	123,901	(4,492)	-
– Transfer to stage 3	(32,428)	(11,302)	43,729	-
Changes in models/risk parameters	261,509	162,570	(48,883)	375,195
New financial assets originated or purchased	674,022	43,575	26,501	744,098
Financial assets that have been derecognised	(518,622)	(53,335)	(90,937)	(662,894)
Loans and Advances as at 31 December 2021	1,998,522	665,296	542,358	3,206,177

Off Balance Sheet Facilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Loans and advances as at 1 January 2021	1,566,784	-	-	1,566,784
Changes in the gross loans				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
Changes in models/risk parameters	(117,483)	-	-	(117,483)
New financial assets originated or purchased	1,388,697	-	-	1,388,697
Financial assets that have been derecognised	(1,095,781)	-	-	(1,095,781)
Loans and Advances as at 31 December 2021	1,742,217	-	-	1,742,217

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (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 Kshs 000**	**Stage 2 Lifetime ECL Kshs 000**	**Stage 3 Lifetime ECL Kshs 000**	**Total Kshs 000**
Loss allowance as at 01 January 2021	594,489	224,976	3,090,481	3,909,946
Changes in the loss allowance				
– Transfer to stage 1	104,015	(62,492)	(41,523)	-
– Transfer to stage 2	(22,589)	89,449	(66,860)	-
– Transfer to stage 3	(11,614)	(63,604)	75,219	-
– Write-offs	-	-	(315,862)	(315,862)
New financial assets originated or purchased	322,026	224,398	958,570	1,504,994
Financial assets that have been derecognised	(134,961)	(48,195)	(573,393)	(756,549)
Changes in models/risk parameters	(235,001)	277,803	193,759	236,561
Foreign exchange and other movements	(69,811)	36,647	33,164	-
Loss allowance as at 31 December 2021	546,554	678,982	3,353,554	4,579,090

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

Mortgage loans

Loss allowance – Loans and advances to customers at amortised cost	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 01 January 2021	11,803	25,679	409,189	446,673
Changes in the loss allowance				
– Transfer to stage 1	5,536	(5,163)	(373)	-
– Transfer to stage 2	(268)	268	-	-
– Transfer to stage 3	-	-	-	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	2,052	51,732	12,826	66,611
Financial assets that have been derecognised	(467)	(22,010)	(165,751)	(188,228)
Changes in models/risk parameters	(19,017)	1,141	(93,155)	(111,032)
Foreign exchange and other movements	3,113	2,449	(5,562)	-
Loss allowance as at 31 December 2021	2,752	54,096	157,174	214,022

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

Overdraft and credit cards

Loss allowance – Loans and advances to customers at amortised cost	**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 01 January 2021	78,899	22,312	263,100	364,310
Changes in the loss allowance				
– Transfer to stage 1	3,171	(1,846)	(1,325)	-
– Transfer to stage 2	(2,516)	5,418	(2,903)	-
– Transfer to stage 3	(617)	(3,720)	4,337	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	1,695	4,928	13,123	19,747
Financial assets that have been derecognised	(12,725)	(9,664)	(54,818)	(77,207)
Changes in models/risk parameters	(51,533)	22,892	1,063	(27,579)
Foreign exchange and other movements	(38)	147	(109)	-
Loss allowance as at 31 December 2021	16,336	40,468	222,468	279,271

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (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

	Cash & Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Amortized cost	Total
Other financial assets	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Gross carrying amount as at 1 January 2021	8,879,521	819,406	7,033,006	1,066,797	8,901,395	26,700,125
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	-	3,467,821	2,513,916	502,158	4,672,367	11,156,262
Financial assets that have been derecognised	(666,604)	-	-	-	-	(666,604)
Gross carrying amount as at 31 December 2021	**8,212,917**	**4,287,227**	**9,546,922**	**1,568,955**	**13,573,762**	**37,189,783**

	Cash & Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Amortized cost	Total
Other financial assets	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	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**

The loss allowance computed for debt instruments measured at FVTOCI is not material to the financial statements and has therefore been recognized.

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

4.1.1 Loans and advances (continued)

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	**Year ended 2021 Kshs 000**	**Year ended 2020 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	-	-

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	**Year ended 2021 Kshs 000**	**Year ended 2020 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 disclosures (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 2021 the net carrying amount of loans and advances was Kshs 66,901,824 (2020 – Kshs 56,579,798,000) and the value of the respective collateral was KShs 125,679,423,000). (2020 – Kshs 122,168,768,000).

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 2020 and 2021.

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 except for an amount of Kes 203 Million classified under other assets which is unsecured and subject to an arbitration process. The asset has been treated as a stage III and 100% provision taken.

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

	2021		2020	
	Kshs 000	**%**	**Kshs 000**	**%**
Manufacturing	910,539	1	586,594	1
Wholesale and retail	30,873,749	45	25,502,362	42
Transport and communication	5,446,464	8	4,499,691	7
Agriculture	2,941,432	4	2,867,256	5
Business services	2,189,765	3	756,845	1
Building and construction	3,353,511	5	3,632,394	6
Other	21,186,364	34	23,455,584	38
	66,901,824	**100**	**61,300,726**	**100**

ii) Customer deposits				
Central and local Government	70,872	0	50,582	0
Co-operative societies	495,360	1	455,283	1
Insurance companies	371,815	0	311,358	0
Private enterprises & individuals	80,805,507	99	68,781,894	99
Non-profit institutions	167,969	0	157,653	0
	81,911,523	**100**	**69,756,770**	**100**

iii) Off balance sheet items				
Letters of credit and guarantees	8,656,566	100	8,168,692	100
	8,656,566	**100**	**8,168,692**	**100**

Notes (continued)

4. Financial Risk Management disclosures (continued)

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.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2021 for the years 2021 to 2025

	2021	2022	2023	2024	2025
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	0.5	0.5	0.5	0.5	0.5
- Base scenario	0.2	0.2	0.2	0.2	0.2
- Range of upside scenarios	0.3	0.3	0.3	0.3	0.3
- Range of downside scenarios					
	0.5	0.5	0.5	0.5	0.5
Benchmark interest rates	0.2	0.2	0.2	0.2	0.2
- Base scenario	0.3	0.3	0.3	0.3	0.3
- Range of upside scenarios					
- Range of downside scenarios	0.5	0.5	0.5	0.5	0.5
	0.2	0.2	0.2	0.2	0.2
Reserves	0.3	0.3	0.3	0.3	0.3
- 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 2021 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%**
	KShs000'	**KShs000'**
Term loans	3,024	6,904
Mortgages	143	321
Overdrafts and credit cards	185	417

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:

	2021	2020
At 31 December	43.4%	37.1%
Average for the year	37.1%	35.1%
Maximum for the year	43.4%	37.1%
Minimum for the year	29.8%	33.9%

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.

At 31 December 2021	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	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,110,892	8,249,490	17,137,543	11,587,472	-	83,085,397
Borrowings	-		-	4,560,795	3,943,903	8,504,698
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Capital commitments	-	-	154,986	-	-	268,829
Total financial liabilities	51,144,700	8,249,490	17,436,648	16,148,267	3,943,903	97,036,851
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,700,646
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	34,432,864	4,733,636	7,129,891	39,768,638	43,926,044	129,991,073
(Gap)/surplus	(16,711,836)	(3,515,854)	(10,306,757)	23,620,371	39,982,141	32,954,222

Notes (continued)

4. Financial risk management disclosures (continued)

4.2 Liquidity risk (continued)

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

As at 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	42,475,979	7,596,800	21,070,700	97,590	-	71,241,069
Borrowings	-	-	2,796,343	483,709	-	3,280,052
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Capital commitments	-	-	169,986	-	-	169,986
Total financial liabilities	**44,475,159**	**7,700,518**	**24,313,610**	**1,432,875**	**340,630**	**78,262,792**
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	869,984
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	80,105,769
Other investments	-	126,804	-	-	-	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**	**113,878,682**
(Gap)/surplus	**(21,928,341)**	**(3,532,344)**	**(18,500,121)**	**39,909,620**	**39,667,076**	**35,615,890**

Notes (continued)

4. Financial risk management disclosures (continued)

4.2 Liquidity risk (continued)

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

As at 31 December 2021	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	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,629,907	8,249,490	17,137,543	11,587,472	-	83,604,412
Borrowings	-	-	-	4,560,795	3,943,903	8,504,698
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	-	-	-	1,613,430
Lease liabilities	1,139,178	69,016	184,037	566,639	226,655	1,139,178
Capital commitments		-	154,986	-	-	154,986
Total financial liabilities	51,663,715	8,249,490	17,436,648	16,148,267	3,943,903	97,555,866
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	34,432,864	4,733,636	7,129,891	39,768,638	43,926,044	129,991,073
(Gap)/surplus	(17,230,851)	(3,515,854)	(10,306,757)	23,620,371	39,982,141	32,435,207

Notes (continued)

4. Financial risk management disclosures (continued)

4.2 Liquidity risk (continued)

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

As at 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	42,475,979	7,596,800	21,070,700	97,590	-	71,241,069
Borrowings	-	-	2,796,343	483,709	-	3,280,052
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Capital commitments	-	-	169,986	-	-	169,986
Total financial liabilities	**44,475,159**	**7,700,518**	**24,313,610**	**1,432,875**	**340,630**	**78,262,792**
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	869,984
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	80,105,769
Other investments	-	126,804				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**	**113,878,682**
(Gap)/surplus	**(21,928,341)**	**(3,532,344)**	**(18,500,121)**	**39,909,620**	**39,667,076**	**35,615,890**

Notes (continued)

4. Financial risk management disclosures (continued)

4.2 Liquidity risk (continued)

c) Liquidity risk based on undiscounted cash flows- Group and Bank (continued)

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.

	2021 Kshs 000	2020 Kshs 000
(a) Letters of credit, guarantees, acceptances	8,656,566	8,168,692
(b) Operating lease arrangements	1,139,178	1,607,076
(c) Committed and undrawn facilities	9,186,335	6,042,645
	18,982,079	15,818,413

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 2021	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 liabilities						
Balances due to banks	-	2,281,200	-	-	-	2,281,200
Customer deposits	44,937,018	8,249,490	17,137,543	11,587,472	-	81,911,523
Borrowings	-	-	-	4,297,891	3,943,903	8,241,794
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Total financial liabilities	47,689,626	10,530,690	17,281,662	15,885,363	3,943,903	95,331,244
Financial assets						
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,011,007	164,957	73,985	-	9,450,697	24,700,646
Loans and advances	-	66,901,824	-	-	-	66,901,824
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	28,517,659	67,066,781	1,429,965	-	9,450,697	106,465,102
(Gap)/surplus	(19,171,967)	56,536,091	(15,851,697)	(15,885,363)	5,506,794	11,133,858

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 liabilities						
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	-	3,017,149
Other liabilities	1,655,822	-	-	-	-	1,655,822
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Total financial liabilities	**44,394,844**	**7,562,126**	**22,877,224**	**1,313,736**	**340,630**	**76,488,560**
Financial assets						
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	-	56,579,798	-	-	-	56,579,798
Other investments	-	126,804	-	-	-	126,804
Other assets	1,421,545	-	-	-	-	1,421,545
Total financial assets	**18,270,472**	**58,292,568**	**476,345**	**35,737**	**7,795,476**	**84,870,598**
(Gap)/surplus	**(26,124,372)**	**50,730,442**	**(22,400,879)**	**(1,277,999)**	**7,454,846**	**8,382,038**

Notes (continued)

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

(i) Interest rate risk - Bank

As at 31 December 2021	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	2,281,200	-	-	-	-	2,281,200
Customer deposits	45,456,033	8,249,490	17,137,543	11,587,472	-	82,430,538
Borrowings	-	-	-	7,937,454	304,340	8,241,794
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	.-	-	-	1,613,430
Lease liabilities	1,139,178	69,016	184,037	566,639	226,655	1,139,178
Capital commitments		-	154,986	-	-	154,986
Total financial liabilities	**51,039,338**	**8,318,506**	**17,476,566**	**20,091,565**	**530,995**	**96,410,623**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	27,994,646	22,712,362	66,901,825
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	**34,394,727**	**4,733,636**	**7,129,891**	**27,994,646**	**32,163,059**	**106,415,959**
(Gap)/surplus	**(16,644,611)**	**(3,584,870)**	**(10,346,675)**	**7,903,081**	**31,632,064**	**10,005,336**

Notes (continued)

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

(i) Interest rate risk - Bank

As at 31 December 2020	**non-interest bearing**	**0 - 3 months**	**4-12 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	7,497,820	20,071,107	80,472	-	70,125,378
Borrowings	-	-	2,635,038	382,111	-	3,017,149
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Total financial liabilities	**44,475,159**	**7,601,538**	**22,982,726**	**1,314,159**	**340,630**	**76,714,212**
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	-	56,579,798	-	-	-	56,579,798
Other investments	-	126,804	-	-	-	126,804
Other assets	1,385,077	-	-	-	-	1,385,077
Total financial assets	**18,234,004**	**58,292,568**	**476,345**	**35,737**	**7,795,476**	**84,834,130**
(Gap)/surplus	**(26,241,155)**	**50,691,030**	**(22,506,381)**	**(1,278,422)**	**7,454,846**	**8,119,918**

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 813 million (2021 – 703 Million), while a 10% depreciation in interest rated would decrease net interest income by Shs 813 Million (2021 – Shs 703,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:

As at 31 December 2021	USD Kshs 000	GBP Kshs 000	EURO Kshs 000	Total Kshs 000
Financial assets				
Deposits and balances due from banking institutions	2,987,994	199,449	187,966	3,375,409
Financial liabilities				
Borrowings	(3,190,131)	-	-	(3,190,131)
Net currency exposure	**(202,137)**	**199,499**	**187,966**	**185,279**
As at 31 December 2020				
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**

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

ii) Currency risk (continued)

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 2021 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 29 million (31 December 2020: KShs 34million) 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)

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.

2021 - Group	Level 1 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Total Kshs 000
Financial assets				
Government securities at FVOCI	9,546,922	-	-	9,546,922
Govt securities at FVTPL	1,568,955	-	-	1,568,955
2020 – Group				
Government securities at FVOCI	7,033,006	-	-	7,033,006
Govt securities at FVTPL	1,066,797	-	-	1,066,797
2021 - Bank				
Financial assets				
Government securities at FVOCI	9,546,922	-	-	9,546,922
Govt securities at FVTPL	1,568,955	-	-	1,568,955
2020 - Bank				
Financial assets				
Government securities at FVOCI	7,033,006	-	-	7,033,006
Govt securities at FVTPL	1,066,797	-	-	1,066,797

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

Notes (continued)

4 Financial risk management (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 not carried at fair value, including their levels in the fair value hierarchy.

Group	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
At 31 December 2021					
Cash and balances with CBK	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,584,768	-	16,469,837	13,584,768
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
Deposits from customers	-	-	83,085,397	83,085,397	81,911,523
Borrowings	-	8,504,698	-	8,504,698	8,241,794
Other financial liabilities	-	-	-	-	-
At 31 December 2020					
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

Notes (continued)

4 Financial risk management (continued)

4.4 Fair value of financial assets and liabilities (continued)

Bank **At 31 December 2021**	**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	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,573,762	-	16,458,831	13,573,762
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
Deposits from customers	-	-	83,604,412	83,604,412	82,430,538
Borrowings	-	8,504,698	-	8,504,698	8,241,794
Other financial liabilities	-	-	-	-	-

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

Notes (continued)

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.

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.

Notes (continued)

5 Capital management (continued)

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

	2021 Kshs 000	2020 Kshs 000
Tier 1 capital		
Share capital	1,287,108	1,287,108
Share premium	5,874,662	5,874,662
Retained earnings	6,453,624	5,735,148
Total Tier 1 capital	13,615,394	12,896,918
Tier 2 capital		
Revaluation reserves (25%)	69,606	66,162
Term subordinated debt	4,000,000	2,018,800
(statutory reserve)	369,161	
Total Tier 2 capital	4,438,767	2,084,962
Total regulatory capital	18,054,161	14,981,879
Risk-weighted assets	83,080,132	74,824,096
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	20.89%	17.89%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	15.53%	15.19%

6 (a) Interest income

	Group		Bank	
	2021 Kshs 000	2020 Kshs 000	2021 Kshs 000	2020 Kshs 000
Interest on loans and advances	8,910,143	7,915,918	8,910,143	7,915,918
Interest on bank placements	29,319	102,556	29,319	102,556
Interest income on				
- government securities at amortised cost and FVOCI	2,216,889	1,345,455	2,216,889	1,345,455
- corporate bonds and commercial paper	-	22,797	-	22,797
	11,156,351	**9,386,726**	**11,156,351**	**9,386,726**

6 (b) investment income

	Group		Bank	
	2021 Kshs 000	2020 Kshs 000	2021 Kshs 000	2020 Kshs 000
Interest on financial instruments at FVTPL	120,423	119,375	120,423	119,375

Notes (continued)

7 Interest expense

	Group		Bank	
	2021	**2020**	**2021**	**2020**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Interest on customer deposits	2,442,127	1,996,304	2,474,224	2,015,431
Interest on balances due to banks	95,562	24,814	95,562	24,814
Interest on borrowings	468,657	447,130	468,657	447,131
Bond amortization expenses	99,756	127,648	99,756	127,648
Interest on Lease Liabilities (Note 33)	135,498	174,804	135,498	174,804
	3,241,600	2,770,700	3,273,697	2,789,828

* Interest on Lease liabilities 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.

8 Fees and commission income

	Group 2021	Group 2020	Bank 2021	Bank 2020
(a) Fee and commission income				
Transaction related fees	1,939,321	1,601,691	1,939,321	1,601,691
Loan service fees	205,498	141,635	205,498	141,635
Ledger related fees and commissions	195,575	196,430	195,575	196,430
	2,340,395	1,939,756	2,340,395	1,939,756
(b) Fees and commission expense	(302,274)	(273,643)	(302,274)	(273,643)

Fees and commission expense relate to bank charges swift expenses and cheque printing expenses.

	Group 2021	Group 2020	Bank 2021	Bank 2020
(c) Other income				
Brokerage commissions	230,845	167,978	-	-
Other incomes	167,084	232,207	167,084	232,207
	397,929	400,185	167,084	232,207

9 Operating Expenses

	Group		Bank	
	2021	**2020**	**2021**	**2020**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Staff costs (note 10)	2,579,703	2,388,354	2,529,477	2,339,382
Directors' emoluments – Fees	117,635	121,467	105,416	107,940
- Other	-	10,666	-	10,666
Depreciation – property, plant and equipment	429,036	507,145	428,482	505,652
Amortisation of intangible assets	137,594	123,771	133,390	119,567
Contribution to Deposit Protection Fund	103,761	82,498	103,761	82,498
Auditors' remuneration - current period	12,277	8,922	11,580	8,397
Amortisation of operating lease	4,637	4,637	4,637	4,637
Marketing Expenses	264,762	271,999	264,757	271,424
Occupancy expenses	961,777	942,587	960,143	941,845
Other operating expenses	1,544,478	1,011,378	1,543,253	1,009,351
	6,155,660	5,473,424	6,084,896	5,401,359

Notes (continued)

10 Staff costs

	2021 Kshs 000	2020 Kshs 000	2021 Kshs 000	2020 Kshs 000
Salaries and wages	2,145,867	2,039,213	2,102,829	1,996,971
Training, recruitment and staff welfare costs	121,305	90,341	121,022	90,341
Contributions to defined contribution pension scheme	122,018	115,231	120,393	113,950
Medical expenses	166,279	148,332	161,101	142,989
Leave pay provision movement	21,026	(7,648)	21,026	(7,648)
NSSF contributions	3,208	2,885	3,106	2,779
	2,579,703	2,388,354	2,529,477	2,339,382

The total number of permanent employees in the Group and Bank as at the end of the year was 1,369 and 1347 (2020: 1,133 and 1,117 respectively)

11 Income tax

	Group		Bank	
	2021 Kshs 000	**2020 Kshs 000**	**2021 Kshs 000**	**2020 Kshs 000**
a) Taxation charge				
Current tax based on the taxable profit at 30% (2020: 25%)	1,335,950	941,431	1,277,555	912,569
Deferred income tax (Note 28)	(221,591)	(636,888)	(221,198)	(636,564)
Under provision of current tax in prior years	(55,732)	-	-	-
Overprovision of deferred income tax in prior years	(30,426)	(26,410)	(86,965)	(26,439)
Total charge	1,028,201	278,133	969,392	249,566
b) Reconciliation of accounting profit to tax charge				
Profit before taxation	3,337,732	1,440,653	3,144,669	1,325,613
Tax calculated at a tax rate of 30% (2020: 25%)	1,001,054	360,163	943,400	331,403
Tax effect of expenses not deductible for tax purposes	423,089	82,019	423,006	81,948
Tax effect of income not taxable	(337,661)	(30,563)	(337,661)	(30,563)
Under provision of current tax in prior years	(55,467)	-	(55,732)	-
Overprovision of deferred tax in prior years	(30,426)	(26,652)	(31,233)	(26,439)
Effect of change in tax rate	-	(106,834)	-	(106,783)
Deferred tax on IFRS 16 Balances	27,612	-	27,612	
	1,028,201	278,133	969,392	249,566

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 2021	Group 2020	Bank 2021	Bank 2020
Profit (Kshs 000)	2,136,085	1,148,743	2,002,716	1,062,270
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)	1.66	0.90	1.56	0.84

There were no potential dilutive shares outstanding at 31 December 2021.

13 Cash and balances with CBK-Group and Bank

	2021 Kshs 000	2020 Kshs 000
Cash in hand	3,960,569	4,038,445
Balances with CBK (Central Bank of Kenya) - cash ratio & other balances	4,252,348	4,841,076
	8,212,917	8,879,521

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 2021, the cash ratio reserve requirement was 4.25% (2020 – 4.25%) 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%.

14 Balances due from banking institutions – Group and Bank

	2021 Kshs 000	2020 Kshs 000
a) Balances due from banking institutions maturing within 90 days:		
Overnight lending and placement with other banks	1,131,500	500,084
Balances due from local banking institutions	1,319	1,318
Balances due from foreign banking institutions	3,154,408	318,004
	4,287,227	819,406
b) Balances due to banking institutions maturing within 90 days:		
Balances with local banking institutions	2,281,200	451,741

Deposits with/from local banks as at 31 December 2021 represent overnight lending.
The effective interest rate on deposits due from local banking institutions at 31 December 2021 was 2.90% (2020 –6.30%).
The effective interest rate on deposits due to local banking institutions at 31 December 2021 was 5.61% (2020 –5.45%).

Notes (continued)

15 Government securities

	Group 2021 Kshs 000	Group 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Treasury bills and bonds – at amortised cost	13,584,768	8,901,395	13,573,762	8,901,395
Treasury bonds at fair value through other comprehensive income	9,546,922	7,033,006	9,546,922	7,033,006
Treasury bonds at fair value through profit and loss	1,568,955	1,066,797	1,568,955	1,066,797
	24,700,645	17,001,198	24,689,639	17,001,198

The maturity profile of government securities is as follows:

	Group 2021 Kshs 000	Group 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Maturing within one year	13,199,725	9,212,311	13,199,725	9,212,311
Maturing between 2 to 5 years	-	-	-	-
Maturing after 5 years	11,500,920	7,788,886	11,489,914	7,788,886
	24,700,645	17,001,197	24,689,639	17,001,197

The weighted average effective interest rate on treasury bonds at 31 December 2021 was 11.82 %, (2020 -11.19 %). The weighted average effective interest rate on treasury bills was 9.40% (2020-9.46 %). As of 31 December 2021, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya, (2020: Nil)

16 Loans and advances to customers- Group & Bank

a) Loans and advances at amortised cost

Gross total	**2021 Kshs 000**	**2020 Kshs 000**
Term loans	59,693,703	51,721,047
Mortgage	9,074,329	6,829,901
Overdraft and credit cards	3,206,176	2,749,778
Total Gross	**71,974,208**	**61,300,726**
Provisions		
Term loans	(4,579,090)	(3,909,946)
Mortgage	(214,022)	(446,673)
Overdraft and credit cards	(279,272)	(364,310)
Total Provisions	**(5,072,384)**	**(4,720,929)**
Net total	**66,901,824**	**56,579,797**

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 2021 was 12.91% (2020 – 12.98 %).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:

	Stage 1 and 2 **Kshs 000**	Stage 3 **Kshs 000**	Total **Kshs 000**
At 1 January 2021	958,160	5,056,122	6,014,282
Increase in impairment provision	(381,028)	1,657,166	1,276,138
At 31 December 2021	577,132	6,713,287	7,290,420
Charge to profit or loss			
Increase in impairment provision	(381,028)	1,657,166	1,276,138

	Stage 1 and 2 **Kshs 000**	Stage 3 **Kshs 000**	Total **Kshs 000**
At 1 January 2020	922,457	2,862,842	3,785,299
Increase in impairment provision	35,703	2,193,280	2,228,983
At 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

17 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.

	2021 **Kshs 000**	**2020** **Kshs 000**
Guarantees	8,463,914	7,060,571
Letters of credit	192,652	1,108,120
	8,656,566	8,168,691
Litigations against the Group	266,071	264,694

Notes (continued)

17 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

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.

	2021 Kshs 000	2020 Kshs 000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	9,186,335	6,042,645

c) Capital commitments

	2021 Kshs 000	2020 Kshs 000
Authorised and contracted for	190,326	135,378
Authorised but not contracted for	78,503	23,521

Notes (continued)

18 Other assets

	Group 2021 Kshs 000	Group 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Un-cleared items in the course of collection	209,189	254,131	209,189	254,131
Prepayments	186,451	142,746	186,451	142,746
Deposits for services	121,255	120,424	121,255	120,424
Discount on subordinated bond	-	5,584	-	5,584
Others	489,614	898,660	451,476	871,569
	1,006,509	**1,421,545**	**968,371**	**1,394,454**

All other assets are current.

19 Other investments

	Bank and Group 2021 Kshs 000	2020 Kshs 000
Principal balance at start of year	126,804	1,385,077
Repayments in the year	1,355,980	(1,079,273)
Provision for expected loss	(126,804)	(179,000)
	1,355,980	**126,804**

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). These are measured and carried at amortised cost

20 Investment in subsidiary

	No of shares	Holding	2021 Kshs 000	2020 Kshs 000
Family Insurance Agency Limited	10,000	100%	10,000	1,000

The subsidiary is a wholly owned Limited Liability Company incorporated and domiciled in Kenya. The principal activity of the company is that of an insurance agency business. Investment in subsidiary is non-current. During the year Family Bank Limited was issued with an additional 9,000 shares in order to meet the IRA requirement threshold of a minimum Ksh 5,000,000 shares

Notes (continued)

21 Investment properties - Group & Bank

For the year ended 31 December

	2021 KShs '000	2020 KShs '000
At start and end of year	23,400	23,400
Fair value gains	-	-
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 2021				
Investment properties	-	-	23,400	23,400
At 31 December 2020				
Investment properties	-	-	23,400	23,400

Valuation technique used to derive level 3 fair values

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 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 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
At 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
At 31 December 2020	-	11,099	2,228,887	2,133,279	114,939	1,028,176	5,516,380
Net book value							
At 31 December 2020	590,000	448,901	616,827	143,994	6,098	405,181	2,211,001
Year ended 31 December 2021							
At 1 January 2021	590,000	460,000	2,845,714	2,277,273	121,037	1,433,357	7,727,381
Additions	-	-	72,189	169,812	17	38,632	280,650
At 31 December 2021	590,000	460,000	2,917,903	2,447,085	121,054	1,471,989	8,008,031
Depreciation							
At 1 January 2021	-	11,099	2,228,887	2,133,279	114,939	1,028,176	5,516,380
Charge for the year	-	11,099	200,429	91,949	2,666	123,531	429,674
At 31 December 2021	-	22,198	2,429,316	2,225,228	117,605	1,151,707	5,946,054
Net book value							
At 31 December 2021	590,000	437,802	488,587	221,857	3,449	320,282	2,061,977

The net book value of the building had revaluation not taken place would have been KSh 302,005,000 (2020: Ksh 302,005,000).

There are no properties or equipment charged as securities as at end of year (2020: None). Fully depreciated assets still in use as at end of year had an initial cost of Kshs 2.46b (2020: Kshs 2.54b)

Notes (continued)

22 Property and Equipment- Bank

	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and Equipment	Total
Cost/ Valuation	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
Year ended 31 December 2020							
At 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
At 31 December 2020	590,000	460,000	2,845,714	2,272,768	117,024	1,437,253	7,722,759
Depreciation							
At 1 January 2020	-	-	2,013,265	1,988,649	104,845	898,815	5,005,574
Charge for the year	-	11,099	215,622	143,847	9,530	127,196	507,294
At 31 December 2020	-	11,099	2,228,887	2,132,496	114,375	1,026,011	5,512,868
Net book value							
At 31 December 2020	590,000	448,901	616,827	140,272	2,649	411,242	2,209,891
Year ended 31 December 2021							
At 1 January 2021	590,000	460,000	2,845,714	2,272,768	117,024	1,437,253	7,722,759
Additions	-	-	72,189	169,812	17	38,632	280,060
At 31 December 2021	590,000	460,000	2,917,903	2,442,580	117,041	1,475,885	8,003,409
Depreciation							
At 1 January 2021	-	11,099	2,228,887	2,132,496	114,375	1,026,011	5,512,868
Charge for the year	-	11,099	199,276	92,614	2,666	123,500	429,155
At 31 December 2021	-	22,198	2,428,163	2,225,110	117,041	1,149,511	5,942,023
Net book value							
At 31 December 2021	590,000	437,802	489,740	217,470	-	326,374	2,061,386

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 (2020: Ksh 302,005,000)

Notes (continued)

23 Intangible assets – Computer software

	Group		Bank	
	2021 Kshs 000	2020 Kshs 000	2021 Kshs 000	2020 Kshs 000
Cost				
At 1 January	1,542,392	1,506,108	1,514,737	1,478,453
Additions	64,351	36,284	64,351	36,284
At 31 December	1,606,743	1,542,392	1,579,088	1,514,736
Amortisation				
At 1 January	1,143,036	1,019,265	1,130,448	1,010,881
Charge for the year	137,596	123,772	133,389	119,567
At 31 December	1,280,632	1,143,036	1,263,837	1,130,448
Net book value				
At 31 December	326,111	399,355	315,251	384,289

The intangible assets are in respect of computer software purchase costs.

24 Prepaid operating lease rentals- Group and Bank

	2021 Kshs 000	2020 Kshs 000
Leasehold land:		
Cost		
At 1 January and 31 December	180,335	180,335
Amortisation		
At 1 January	45,752	41,115
Charge for the year	2,030	4,637
At 31 December	47,782	45,752
Net book value		
At 31 December	132,553	134,583

25 Customer deposits

	Group		Bank	
	2021 Kshs 000	2020 Kshs 000	2021 Kshs 000	2020 Kshs 000
Customer deposits				
Current and demand accounts	45,456,033	42,252,708	45,464,691	42,256,216
Savings accounts	3,998,699	3,742,209	3,998,699	3,742,209
Fixed deposit accounts	32,456,791	23,761,853	32,967,149	24,126,953
	81,911,523	**69,756,770**	**82,430,539**	**70,125,378**

Notes (continued)

25 Customer deposits (continued)

Maturity analysis of customer deposits	Group 2021 Kshs 000	Group 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
Repayable:				
On demand	45,456,208	42,252,882	45,464,865	42,256,390
Within one year	36,345,613	27,435,457	36,855,971	27,800,557
1-5 years	109,702	68,431	109,702	68,431
	81,911,523	**69,756,770**	**82,430,538**	**70,125,378**

The Weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 8.42% (2020 – 8.02 % 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

	2021 Kshs 000	2020 Kshs 000
a) Analysis		
Development Financial Institutions		
European Investment Bank (EIB)	304,340	764,221
OIKO Credit	-	169,870
Waste Finish Ink	10,864	10,864
Water Credit Alternative Channels	2,017	2,901
Responsibility	1,245,510	-
Blue Orchard	1,940,523	-
Incofin	794,637	-
	4,297,891	**947,856**
Subordinated Bond		
Subordinated Bond	4,011,568	2,072,341
Unamortized origination fees	(67,665)	(3,049)
	3,943,903	**2,069,292**
Total borrowings	8,241,797	3,017,148
b) Movement:		
At beginning of the year	3,011,961	3,954,679
Proceeds from borrowings	7,925,612	7,284
Repayments in the year	(2,695,779)	(944,815)
At end of the year	**8,241,794**	**3,017,148**

Notes continued

26 Borrowings – Group & Bank

The table below summarises the terms for the borrowings:

Lender	Outstanding amount	Currency	Repayment period	Maturity date	Interest rate
	Kshs 000				
EIB	302,340	EUR	7yrs	Jan 2021 and Jan 2023	9.78%
Responsibility	1,245,510	USD	4yrs	8-Jul-24	6-month LIBOR plus four hundred sixty basis points (460 bps) of the outstanding Principal Amount as of the Disbursement Date
Blue Orchard	1,940,523	USD	4yrs	28-Dec-24	475 basis points plus the LIBOR to be determined on the Quotation Day.
Incofin	794,637	USD	4yrs	May 2021	Fixed interest rate per annum equal to 4.75% net per annum
Corporate Bond	4,000,000	KSH		17-Dec-2026	i) Fixed Rate Notes: - 13.0% per annum payable semi-annually ii)Floating Rate Notes: - 182-day T bill + 250bps payable semi-annually

27 Group and Bank provisions and other liabilities

Provisions	**2021 Kshs 000**	**2020 Kshs 000**
(a) Provisions and accruals		
Opening balance	554,037	383,118
Additional provisions	(59,406)	170,919
Closing balance	494,631	554,037
Leave pay accrual	54,866	33,840
	549,497	**587,877**

	Group		**Bank**	
Other Liabilities	**2021 Kshs 000**	**2020 Kshs 000**	**2021 Kshs 000**	**2020 Kshs 000**
(b) Other liabilities				
Cheques for collection	48,527	62,427	48,527	62,427
Advance loan processing fee	913,591	739,519	913,591	739,519
Accounts payable	14,719	31,642	14,719	31,641
Revenue collected on behalf of revenue authorities	200,403	118,448	200,403	118,448
Other payables	580,309	703,787	436,191	560,831
	1,757,548	**1,655,823**	**1,613,430**	**1,512,866**

Other liabilities are current.

Notes (continued)

28 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2020 - 30%). The movements in the deferred income tax account were as follows:

Family Insurance Agency Limited	**2021 Kshs 000**	**2020 Kshs 000**
At start of year	1,126	1,420
credit to profit or loss	(393)	(324)
Under/(over) provision in prior year	28	30
Deferred income tax liability end of year	**761**	**1,126**

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

Group and Bank		
At start of year	1,552,679	885,542
Credit to profit or loss	221,198	636,564
Charge to other comprehensive income	-	4,133
Overprovision in prior year	31,233	26,439
Deferred income tax asset end of year	**1,805,110**	**1,552,679**

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**
2021	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
Property and equipment	144,365	31,233	197,858	-	373,456
Other deductible differences	1,408,314	-	23,340		1,431,654
	1,552,679	**31,233**	**221,198**	**-**	**1,805,110**
2020					
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**

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
2021	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
Property and equipment	1,276	29	(394)	911
Other deductible differences	(150)	-	-	(150)
	1,126	**29**	**(394)**	**761**
2020				
Property and equipment	1,525	29	(278)	1,276
Other deductible differences	(104)	-	(46)	(150)
	1,421	**29**	**(324)**	**1,126**

29 Share Capital

	2021	2020
	Kshs 000	**Kshs 000**
Authorised:		
1,500,000,000 ordinary shares of Sh 1 each	1,500,000	1,500,000
Issued:		
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
At 1 January 2020	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2020	1,287,107,542	1,287,108	5,874,662	7,161,770
At 1 January 2021	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2021	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 2021.

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 amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines where impairment losses required by legislation or regulations exceed those calculated under International Financial Reporting Standards (IFRS).

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	
	2021	2020	2021	2020
	Shs '000	Shs '000	Shs '000	Shs '000
Profit before taxation	3,336,847	1,440,653	3,144,669	1,325,613
Adjustments for:				
Depreciation of property and equipment	429,674	508,788	429,155	507,294
Amortization of prepaid operating lease rentals	2,030	4,637	2,030	4,637
Interest income earned	(11,156,351)	(9,386,726)	(11,156,351)	(9,386,726)
Interest expense incurred	3,241,600	2,770,700	3,273,697	2,789,828
Amortization of intangible assets	137,594	123,771	133,390	119,567
Depreciation of right of use asset	432,686	453,105	432,686	453,105
Changes in working capital items:				
Cash reserve ratio	592,155	(1,271,436)	592,155	(1,271,436)
Financial assets at FVOCI	(2,513,916)	(7,050,916)	(2,513,916)	(7,050,916)
Financial assets at amortised cost	(4,683,373)	(714,017)	(4,672,367)	(714,017)
Financial assets at FVPL	(502,158)	595,718	(502,158)	595,718
Corporate bond	-	399,847	-	399,847
Loans and advances	(10,322,026)	(5,985,359)	(10,322,026)	(5,985,359)
Other investments	(1,229,176)	1,258,273	(1,229,176)	1,258,273
Other assets	415,037	(19,315)	426,083	(51,962)
Customer deposits	12,154,753	11,702,285	12,305,159	11,849,807
Provisions	(38,380)	163,271	(38,380)	163,271
Movement in unamortised borrowing orgination fees	(64,616)	(3,049)	(64,616)	(3,049)
Other liabilities	101,725	(293,694)	100,564	(364,660)
Cash generated from operations	**(9,665,895)**	**(5,303,464)**	**(9,659,402)**	**(5,361,165)**

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	
	2021	2020	2021	2020
	Sh '000	Sh '000	Sh '000	Sh '000
Balances with Central Bank of Kenya - Cash	3,960,569	4,038,445	3,960,569	4,038,445
Balances with other banking institutions	4,287,227	819,406	4,287,227	819,406
Balances due to other banking institutions	(2,281,200)	(451,741)	(2,281,200)	(451,741)
	5,966,596	**4,406,110**	**5,966,596**	**4,406,110**

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 deriving 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 2021or 2020.
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 2021

	Wholesale banking	Retail banking	Other	Total
Interest income	4,462,540	6,693,811	-	**11,156,351**
Interest expense	(1,309,479)	(1,964,218)	32,097	(3,241,600)
Net interest income	3,153,062	4,729,592	32,097	7,914,751
Fee and commission income	936,158	1,404,237	-	2,340,395
	(120,910)	(181,364)	-	(302,274)
Net fees and commission income	815,248	1,222,873	-	2,038,121
Investment income	48,169	72,254	-	**120,423**
Net trading income	118,968	178,453	-	**297,421**
Other income	66,834	100,250	230,845	**397,929**
Operating income	4,202,281	6,303,422	262,942	10,768,645
Operating expenses	(2,433,958)	(3,650,938)	(70,764)	(6,155,660)
Credit impairment losses	(510,455)	(765,683)		(1,276,138)
Profit before taxation	1,257,868	1,886,801	192,178	3,336,847
Income tax expense	(387,757)	(581,635)	(58,809)	(1,028,201)
Other comprehensive income				
Profit for the year	870,111	1,305,166	133,369	2,308,646

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)	-	(2,770,700)
Net interest income	2,716,332	3,899,695	-	6,616,026
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)	(3,170,893)	(72,066)	(5,473,424)
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

Notes (continued)

32 Operating segments (continued)

Statement of financial position as at 31 December 2021

	Wholesale banking Sh' 000	Retail banking Sh' 000	Others Sh' 000	Total Sh' 000
Assets	44,231,433	66,638,438	582,576	111,452,446
Liabilities and equity:	44,675,131	66,920,178	142,864	111,452,446
Inter-segment lending	(171,434)	(257,152)	428,586	
Total liabilities and equity	44,503,697	66,663,026	285,722	111,452,446
Other disclosures				
Capital expenditure	126,538	189,806	-	-

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

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:

Cost		
At start of year	2,455,488	2,039,151
Additions	-	416,337
Disposals	(131,509)	
At end of year	2,323,979	2,455,488
Accumulated depreciation		
At start of year	(971,885)	(518,780)
Charge for the year	(432,686)	(453,105)
At end of year	(1,404,571)	(971,885)
Net carrying amount at end of year	919,407	1,483,603

(i) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Amortisation of right of use asset	551,198	453,105
Interest expense (included in interest expense)	135,498	174,804
Expense relating to short-term leases (included in administrative expenses)	-	-

Notes (continued)

33 Leases(continued)

The Bank as a lessee

(b) Lease liabilities

	2021 Kshs 000	2020 Kshs 000
Current	276,056	414,871
Non-current	863,123	1,192,205
	1,139,178	**1,607,076**

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

	2021 Kshs 000	2020 Kshs 000
At start of year	1,607,076	1,569,539
Additions/Disposal during the year	(61,681)	416,337
Interest expense on leases	135,498	174,804
Repayments	(541,714)	(553,604)
At end of year	**1,139,178**	**1,607,076**

34 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	
	2021 KShs '000	2020 Sh '000	2021 KShs '000	2020 KShs '000
(a) Loans and advances				
At 1 January	2,932,681	3,509,466	2,932,681	3,509,466
Additions	613,412	549,526	613,412	549,526
Interest charged	202,523	288,872	202,523	288,872
Repayments	(869,073)	(1,415,183)	(869,073)	(1,415,183)
At 31 December 2021	**2,879,543**	**2,932,681**	**2,879,543**	**2,932,681**

Notes (continued)

34 Related party transactions(continued)

As at 31 December 2021 loans and advances to staff amounted to Sh 1,451,377,000 (2020 – Sh 1,381,113,000). 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 2020	9,947	5,510	15,457
Withdrawals	-	-	-
At 31 December 2020	**9,947**	**5,510**	**15,457**
At 1 January 2021	9,947	5,510	15,457
Deposits	584,503	1,768,181	2,352,684
Withdrawals	(177,225)	(336,341)	(513,566)
At 31 December 2021	**417,225**	**1,437,350**	**1,854,575**

Key management compensation

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

	Group		Bank	
Short term benefits	**2021**	**2020**	**2021**	**2020**
	Kshs 000	**Kshs 000**	**Kshs 000**	**Kshs 000**
Salaries and other benefits	158,571	119,006	158,571	119,006
Directors' emoluments	117,635	132,133	105,416	118,606

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