REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

DEVELOPMENT BANK OF KENYA LIMITED

FOR THE YEAR ENDED 31 DECEMBER, 2021

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

30 MAR 2022

RECEIVED

DEVELOPMENT BANK OF KENYA LIMITED AND SUBSIDIARY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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Registered office

Finance House
Loita Street
P.O. Box 30483 - 00100
Telephone: (254) 020 340401/2/3
Email: dbk@devbank.com
Telegrams: DEVBANK.KE
Nairobi
Kenya

Subsidiary

Small Enterprises Finance Company Limited (SEFCO)
P.O. Box 34045 - 00100
Telephone: (254) 020 340401/2/3
Telex: 22662
Nairobi
Kenya

Shareholders

Industrial & Commercial Development Corporation (ICDC)
P.O. Box 45519 - 00100
Nairobi
Kenya

TransCentury Plc
P.O. Box 42588 - 00100
Nairobi
Kenya

Directors

The directors who served during the year and to the date of this report are:

Ndung'u Gathinji - Chairman
Haggai William – Retired in May 2021
Victor Kidiwa - retired in September 2021
Sammy Kipkosgei Chepkwony
Jackson Kambo Mutua
Rose Wangui Mambo
Industrial & Commercial Development Corporation (ICDC)
Cabinet Secretary to the Treasury of Kenya

Secretary

D N Kimori
Finance House
Loita Street
P.O. Box 30483 - 00100
Nairobi, GPO
Kenya

Senior officers

J. K. Kiniti	Ag. Chief Executive
D. Nyaboke	Ag. Company Secretary
O. Sechero	Manager Credit
J. Mananda	Relationship Manager
D. Kamunde	Business Development
D. Namwendwa	Human Resource Manager
P. Pertet	Risk and Compliance Manager
B. Kakule	Operations Manager
E. Anguka	Treasury Manager
W. Ogada	IT Manager

Independent Auditor

Grant Thornton
Certified Public Accountant (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986 - 00100
Nairobi
Kenya

On behalf of:

The Auditor-General
Kenya National Audit Office
Anniversary Towers
University Way
P.O. Box 30084 - 00100
Nairobi
Kenya

Correspondent banks

Standard Chartered Bank
One Madison Avenue
New York, 10010 - 3603
USA

Nedbank
PO Box 1144
Johannesburg 2000, GTG
South Africa

Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
Tel +44 (020) 7885 8888

Standard Chartered Bank
90 Matatma Gandi Road
Mumbai India 400 001
Tel. + 91 22 226 70162

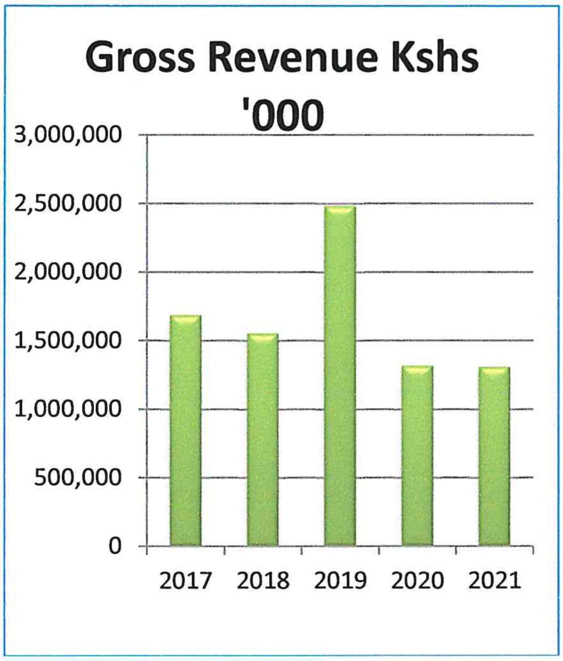
BHF Bank
Bockenheimer
Landstrasse 10
D – 60323
Frankfurt Am Main
Germany

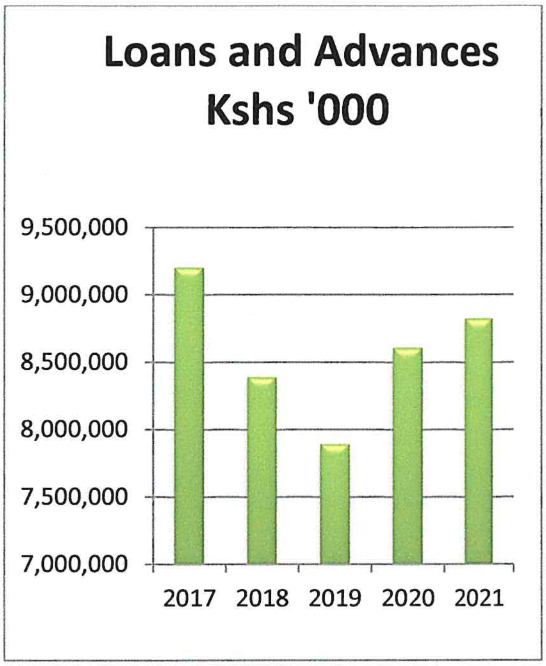
Bank of Communications China
188 Yin Cheng Zhong Road
Shangai 200120 - China
Tel: + 86 21 58408478

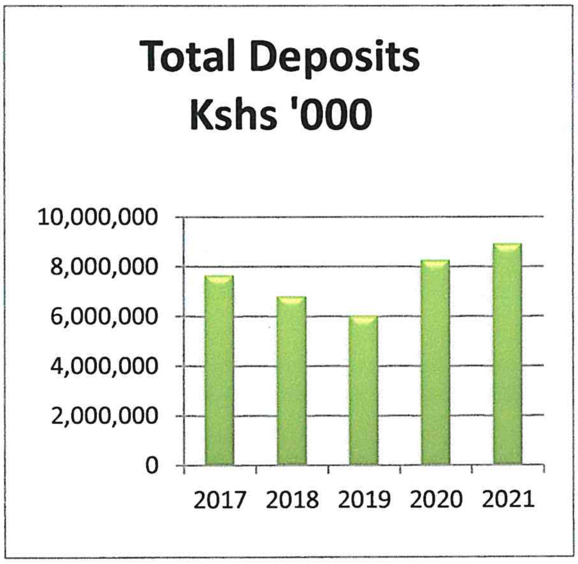
Five-year Group financial summary

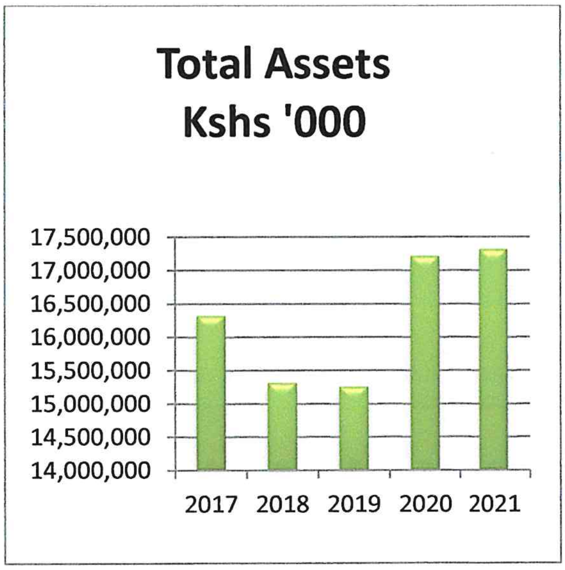
	2021 KShs.'000	2020 KShs.'000	2019 KShs.'000	2018 KShs.'000	2017 KShs.'000
Gross revenue	1,306,513	1,317,916	2,479,788	1,551,617	1,684,587
Profit before tax	66,623	20,541	1,139,192	170,767	59,426
Profit after tax	53,834	21,830	1,080,773	115,813	21,658
Gross loans and advances	10,269,940	10,189,074	9,409,288	9,862,729	10,312,685
Less impairment losses on loans and advances	(1,438,290)	(1,576,551)	(1,498,242)	(1,476,042)	(1,112,906)
Loans and advances to customers (net of impairment)	8,831,650	8,612,523	7,911,046	8,386,697	9,199,779
Total deposits	8,908,543	8,252,500	6,003,890	6,799,074	7,643,952
Borrowings	4,048,643	4,672,533	4,877,168	5,037,465	5,435,938
Shareholders' equity	3,842,351	3,840,512	3,967,043	2,886,270	2,943,323
Total assets	17,278,398	17,217,431	15,350,170	15,312,605	16,309,056
KEY RATIOS					
Basic Earnings Per Share (EPS)	1.04	0.42	20.73	2.22	0.53
Return on Assets (ROA)	3.12%	0.13%	7.04%	0.76%	0.17%
Return on Equity (ROE)	1.40%	0.57%	26.88%	4.01%	0.94%
Capital Adequacy Ratio	17.3%	19.8%	28.20%	19.90%	20.10%

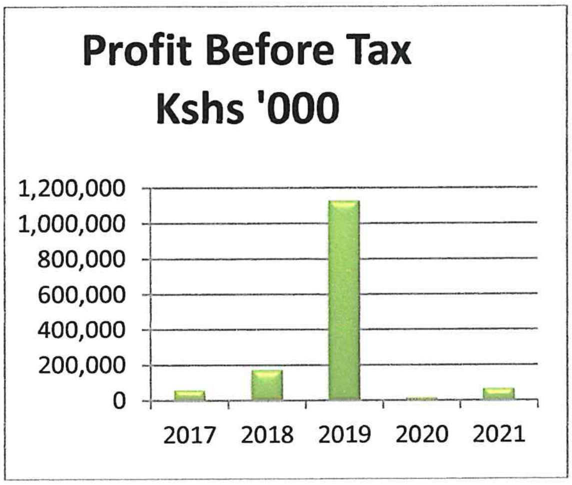
KEY PERFORMANCE INDICATORS











Introduction

It is my pleasure to present to you the annual report and financial statements of the bank and its wholly owned subsidiary, Small Enterprises Finance Company (SEFCO) for the year ended 31st December 2021.

The year 2021 saw a continuation of the Covid 19 pandemic and its variants, and it was not until towards the end of the year, that evidence started emerging that the fight against the pandemic was bearing fruit as the rate of vaccination in the population rose above 20%.

Economic Overview

According to the Kenya Bureau of Statistics, Kenya's economic growth averaged 5.7% in 2018 and 2019 compared to 4.9% achieved in 2017. In 2020, however, the Gross Domestic Product grew by only 1.5% as a result of the impact of the Covid 19 pandemic due to the closure of the economy for most of the year as the country worked to manage the spread of the Covid -19 pandemic. The Central Bank of Kenya however, projects GDP growth in 2021 at 5.2% on the back of increased activity in most sectors after the easing of various Covid related restrictions during the year. The outlook for 2022 remains uncertain owing to the war that has just broken out in Europe with Russia's invasion of Ukraine.

Developments in the Banking Sector

According to the Central Bank of Kenya, the sector remained stable and resilient in 2021 registering a strong performance in the year to December 2021, with the asset base growing by 1.1% to KShs. 6 trillion.

Banks's Performance

The Bank itself was severely affected in 2016 by the closure of a number of banks in the country resulting in the withdrawal of customer deposits from tier III banks. The bank had to result to the Central bank for support, but various strategies to deal with the challenges were also developed including corporate restructuring. As a result, the bank's capital and liquidity positions improved significantly. As at the end of December 2021, the Bank was fully compliant with the minimum benchmarks set by the regulator. During the year, the Bank's customer deposits grew by KShs. 1.1 billion while the net assets position held steady at KShs. 17.3 billion despite repaying KShs. 600 million of the debt owed to the Central Bank of Kenya. The bank's profit before tax, at KShs. 66.6 million was significantly higher than the KShs. 20.5 million achieved in the previous year. The loan portfolio net of provisions rose slightly to KShs. 8.8 billion.

The lending by sector was as shown below.

SECTOR	Portfolio 2021	Portfolio 2020
Agriculture	8.6%	9.4%
Manufacturing	16.4%	17.6%
Building & Construction	2.2%	2.0%
Trade	29.3%	27.7%
Tourism, Restaurants, Hotels	3.7%	3.5%
Transport & Communication	3.4%	3.3%
Real Estate	32.9%	32,9.0%
Financial Services	0.4%	0.2%
Personal Households	3.1%	3.4%
TOTAL	**100.0%**	**100.0%**

The Shareholders being the ultimate owners of the Bank appoint a Board of Directors to conduct the business of the Bank on their behalf. The Board executes its responsibilities through Management and Board Committees that it creates from time to time. The responsibilities for daily operations are delegated to a management team appointed by the Board. A clear segregation of responsibilities between the Board and management is always maintained. The Board makes all policy decisions while management implements the decisions of the Board.

Board of Directors

The current Board is made up of seven directors inclusive of a non-executive chairman.

Board and Management Committees

Tabulated below are Board and Management Committees, their composition and membership and functions.

	Composition & Membership	Chairman	Members	Main Functions
Board Audit Committee	Two non-Executive Directors, and Senior Management	Independent Director	**Jackson Mutua - Chair** Rose Mambo Internal auditor Doreen Kimori **Management (by invitation)**	Independent oversight of the Bank Financial reporting and internal control systems, checks and balances.
Board Credit Committee	Two Non-Executive Director and Senior Management	Independent Director	**Sammy Chepkwony – chair** Barbara Lunani J. K. Kiniti J. Mananda Olga Sechero Doreen Kimori	Reviewing and overseeing the overall lending in the Bank.
Finance & Risk Management Committee	Two Non-Executive Director and Senior Management	Independent Director	**Barbara Lunani – Chair** Joseph Kiarii J. J Kiniti Peter Pertet Doreen Kimori	To ensure quality, integrity and reliability of the institution's risk management, compliance, IT Governance and Strategy.
Governance & Nominations Committee	Two Non-Executive Director and Senior Management	Non-Executive Director	**Rose Mambo – Chair** Sammy Chepkwony J. Kiniti Dorcas Namwendwa Doreen Kimori	Oversight of the quality of governance in the Bank and HR Matters.

Board and Management Committees

	Composition & Membership	Chairman	Members	Main Functions
Ad Hoc. Board Strategy, Business Development & innovation Committee	Three Non-Executive Director and Senior Management	Independent Director	Joseph Kiarii – Chair Ndung'u Gathinji C. Huka	Overall Bank strategy Policy Formulation and implementation

Board attendance

Prudential regulations require that every Board member attend a minimum of 75% of all Board meetings. Below is an extract from the attendance register for the Board meetings held in 2021:

Names	Mar 12th	Mar 31st	May 26th	Jun 2nd	Jun 8th	Jun 28th	Aug 11th	Aug 12th	Aug 17th	Sept 22nd	Nov 3rd	Dec 16th	% Attendance
William Haggai	X	X	X	X	X	X	X	-	-	-	-	-	58
Ndungu Gathinji	X	X	X	X	X	X	X	X	X	X	X	X	100
Barbara Lunani	X	X	X	X	X	X	X	X	X	X	X	X	100
Sammy Chepkwony	X	X	X	X	X	X	X	X	X	X	X	X	100
Jackson Mutua	X	X	X	X	X	X	X	X	X	X	X	X	100
Rose Mambo	X	X	X	X	X	X	X	X	X	X	X	X	100
Joseph Kiarii	-	-	-	-	-	-	-	-	-	-	-	X	8

NB:
1. Mr William Haggai left as Board Chairman on 31st May 2021
2. Mr Joseph Kiarii Appointed as DBK Alternate Director to the CS on 2nd November 2021

Directors Evaluation Report

It is a requirement that the performance of every Director and the Chairman of the Board be evaluated once every year. Evaluation of directors' performance is underway and is expected to be complete before 31 March 2022.

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

Business review and company performance

The Group is engaged in the business of development and commercial banking. It is licensed under the Kenyan Banking Act.

The performance of the Bank in 2021 was on the backdrop of the Covid-19 pandemic which affected the global economy as well as the Kenyan economy. The pandemic led to disruptions in community health, business and trade in and across borders, affecting different sectors of the economy in various ways.

Since the Bank's customers were impacted by the pandemic, the Bank has restructured various facilities with customers in order to support them navigate through the economic disruptions. The restructure of facilities included extension of repayments and moratorium for certain periods. The Bank will continue to work with customers to offer them the necessary relief.

The ongoing Covid-19 pandemic has also increased the estimation uncertainty in the preparation of the financial statements. The Bank has made various estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 and which the Bank believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The principal risks and uncertainties facing the Bank include credit risk, liquidity risk, market risks, operational risks and settlement risk. The Bank has mitigation plans and strategies for these risks as detailed in Note 4 of these financial statements.

During the year 2021, the Group recorded a profit of KSh 53.8 million which is significantly higher than the previous year's profit of Ksh 21.8 million. The increase was mainly due to loan loss provisions Ksh 92.5 million write back recorded in 2021 on loan recoveries.

Total assets amounted to Ksh 17.3 billion (2020 – Ksh 17.2 billion). Loan portfolio rose from KShs. 8.6 million in 2020 to Ksh 8.8 billion at the close of 2021. The quality of the portfolio as measured by the non-performing ratio to the gross loan book improved from 33.7% (2020) to 29.31% (2021). Total deposits increased by 7.5% to Ksh 8.9 billion (2020: Ksh 8.3 billion).

Dividend

The net profit for the year of KShs. 53.8 million (2020: Ksh 21.8 million) has been added to retained earnings. The directors do not recommend a dividend payment for the year ended 31 December 2021 (2020: Nil).

Directors

The directors who served during the year and up to the date of this report are set out on page 1.

Statement of disclosures to the company's independent auditor

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of independent auditor

The Auditor- General is responsible for the statutory audit of the consolidated and separate financial statements in accordance with Article 229 of the Constitution of Kenya. Section 23(1) of the Public Audit Act 2015, empowers the Auditor – General to nominate other auditors to carry out an audit on their behalf. Grant Thornton who were appointed by the Auditor – General, have carried out the audit for the year ended 31 December 2021.

Approval of financial statements

The annual report and financial statements were approved at a meeting by the Directors on 11 March 2022 and were signed on its behalf by:

By the order of the Board

Ag. Company Secretary

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of Development Bank of Kenya Limited (the "Group" and "Company") set out on pages 16 to 83 which comprise the consolidated and bank statements of financial position as at 31 December 2021, and the consolidated and bank statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position and the profit or loss of the Group and the Company.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Group and the Company.

The Directors accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company and Group ability to continue as a going concern and have no reason to believe the Group and Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the consolidated and separate financial statements

The consolidated and separate financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on

Ndung'u Gathinji	Sammy Chepkwony
Date: 11/3/**2022**	**Date:** 11\3\ **2022**

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON DEVELOPMENT BANK OF KENYA LIMITED FOR THE YEAR ENDED 31 DECEMBER, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Development Bank of Kenya Limited (the Group and Bank) set out on pages 16 to 83, which comprise the Consolidated and

Bank statements of financial position as at 31 December, 2021, and the Consolidated and Bank statements of comprehensive income, Consolidated and Bank statements of changes in equity and the Consolidated and Bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Grant Thornton, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the Consolidated and Bank financial statements present fairly, in all material respects, the financial position of Development Bank of Kenya Limited as at 31 December, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Kenya Companies Act, 2015 and the Banking Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Development Bank of Kenya Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matters	How the Matter was Addressed
Impairment Allowances on Loans and Advances at Amortised Cost in the Consolidated and Bank Financial Statements We determined that the impairment on loans and advances to customers to be a Key Audit Matter due to the high degree of estimation uncertainty and significant judgement applied by Management in determination of Expected Credit Losses (ECL) as summarised below;	▪ Assessing the appropriateness of parameters used in the statistical models in respect of Probability of Default (PDs), Loss Given Default (LGDs), and Exposure at Default (EADs) by considering local economic conditions, and;

Forward-Looking Information IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement applied to determining the macroeconomic information used and the probability weightings applied.	▪ Evaluating Management's basis for establishing Stage 3 loss allowances in terms of the Group and Bank's policies and in terms of the requirements of IFRS 9. This included challenging reasonability of Management assumptions on cash flow projections and time to realization for a sample of the facilities.
Significant Increase in Credit Risk The criteria selected to identify a significant increase in credit risk is a key area of Judgement within the Bank's ECL calculation as these criteria determine Whether a 12-month or lifetime provisions recorded. **Model Estimations** Inherently judgmental modelling used to estimate ECLs, which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used are the key drivers of the Banks's ECL results and are therefore most significant judgemental aspect of the Bank's ECL modelling approach.	▪ Making use of our internal financial risk modelling specialists to: ▪ Assess the Group and Bank's methodology for determining the economic scenarios used in the forward-looking information and the probability weightings applied to the scenarios. ▪ Assess the key economic variables used in the determination of ECL, including agreeing a sample of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the Group's and Bank's forecasts to reputable, external sources of macroeconomic forecasts.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report and financial statements, but does not include the consolidated and separate financial statements and my audit report thereon.

My opinion on the bank financial statements does not cover the other information and I do not express any form of assurance and conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Under - Secured Loans

Review of the collateral register maintained by the Bank revealed that there were gaps between some of the outstanding loan balances and the force sale value of collaterals against which the respective loans were issued, thereby exposing the Bank to possible loss of funds in case of loan defaults. The Bank is however, taking stock and evaluating such collaterals with a view of matching the collaterals to the outstanding loans.

Consequently, there is a potential risk of under providing for expected credit losses.

2. Lack of Policy Documents

Review of the Bank's internal control systems revealed that the Bank failed to maintain some fundamental policy documents that would assist in ensuring compliance with laws and regulations as well as providing guidance for decision-making to streamline internal processes such as Asset Liability Management Policy, Finance and Administration Policy, Fixed Assets Policy, Outsourcing Policy, Recovery Policy, Policy on Exposure and Counter party banks and Environmental and Social Governance

Policy. Further, from the review of existing policy documents, it was noted that there were no regular review interventions as provided for under the Standard Operating Procedures (SOP).

Without such fundamental policy documents and adherence to the operating procedures, the Bank lacks structured controls and procedures in its operations.

3. Property and Equipment

Review of the Fixed Assets Register provided for audit revealed that several assets which were fully depreciated as at 31 December, 2021 were still in use but had not been revalued to establish the correct useful life to match the revenue and expenditure to the capital employed in line with the International Financial Reporting Standards IFRS 16. There is therefore, a risk that the depreciation policy adopted does not cover the actual useful life of the assets.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively. In all material respects, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, 2015, I report based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Bank, so far as appears from the examination of those records; and,

iii. The Bank's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for maintaining effective internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the consolidated financial statements, Management is responsible for assessing the Bank'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 Management is aware of the intention to liquidate the Bank or to cease operations.

Management is also responsible for submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective manner.

The Board of Directors is responsible for overseeing the bank's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components, does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's 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 Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank 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 and business activities of the Bank to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 March, 2022

Consolidated statement of comprehensive income

	Note	2021 KShs.'000	2020 KShs.'000
Interest income	5	1,253,394	1,213,925
Interest expense	6	(899,050)	(848,821)
Net interest income		354,344	365,104
Net fees and commission income	7	31,177	22,231
Other operating income	8 (ii)	21,942	81,760
Operating income		407,463	469,095
Impairment losses on financial assets	19	92,537	(31,137)
Operating expenses	9	(433,377)	(417,417)
Profit before income tax	11	66,623	20,541
Income tax expense	12	(12,789)	1,289
Profit for the year		53,834	21,830
Other comprehensive income *Items that will not be reclassified to profit or loss:*			
Net change in fair value of financial assets at FVOCI	13	(54,733)	(156,168)
Deferred tax on fair value of financial assets at FVOCI	13	2,737	7,808
Other comprehensive income net of tax		**(51,996)**	**(148,360)**
Total comprehensive income		**1,838**	**(126,530)**
Earnings per share (KSh. per share)	15	1.03	0.42

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Bank statement of comprehensive income

	Note	2021 KShs.'000	2020 KShs.'000
Interest income	5	1,251,159	1,211,690
Interest expense	6	(899,611)	(849,381)
Net interest income		351,548	362,309
Net fees and commission income	7	31,177	22,231
Other operating income	8 (ii)	21,942	81,760
Operating income		404,667	466,300
Impairment losses on financial assets	19	92,670	(30,779)
Operating expenses	9	(432,449)	(416,641)
Profit before income tax	11	64,888	18,880
Income tax expense	12	(12,268)	1,699
Profit for the year		52,620	20,579
Items that may be reclassified to Profit or loss:			
Net change in fair value of financial assets at FVOCI	13	(54,733)	(156,168)
Deferred tax on fair value of financial assets at FVOCI	13	2,737	7,808
Total other comprehensive income for the year		**(51,996)**	**(148,360)**
Total comprehensive income		**624**	**(127,781)**
Earnings per share (Ksh per share)	15	1.01	0.39

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Consolidated statement of financial position

	Note	2021 KShs.'000	2020 KShs.'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	482,236	682,875
Financial assets at fair value through profit or loss	17	104,129	103,177
Financial assets at amortised cost	17	3,791,012	3,952,870
Deposits and balances due from banking institutions	18	2,555,871	2,582,928
Loans and advances to customers	19	8,831,650	8,612,523
Financial assets at fair value through other comprehensive income	20	614,512	669,245
Investments in associates	22	268,490	-
Tax recoverable	23	-	29,927
Other assets	24	194,253	174,274
Deferred income tax	25	134,660	111,378
Right of use assets	26	121,850	136,353
Intangible assets	26	97,240	91,370
Property and equipment	26	82,495	70,511
TOTAL ASSETS		**17,278,398**	**17,217,431**
LIABILITIES			
Deposits and balances due to banking institutions	27	1,672,232	2,077,535
Customer deposits	28	7,236,311	6,174,965
Borrowings	29	4,048,643	4,672,533
Tax liability		3,098	-
Lease liabilities	33(b)	153,316	156,018
Other liabilities	30	322,447	295,867
		13,436,047	13,376,918
EQUITY			
Share capital	31	1,042,500	1,042,500
Retained earnings		1,259,173	1,370,057
Statutory reserves	37 (a)	997,608	832,890
Other reserves	37 (b)	543,070	595,066
		3,842,351	3,840,513
TOTAL LIABILITIES AND EQUITY		**17,278,398**	**17,217,431**

The financial statements set out on pages 18 to 85 were approved and authorised for issue by the Board of Directors on 11 3 2022 and were signed on its behalf by:

Johnson Kiniti

Sammy Chepkwony

The notes set out on pages 26 to 89 form an integral part of these financial statements.

Bank statement of financial position

ASSETS	Note	2021 KShs.'000	2020 KShs.'000
Cash and balances with Central Bank of Kenya	16	482,236	682,875
Financial assets at fair value through profit or loss	17	104,129	103,177
Financial assets at amortised cost	17	3,769,984	3,931,826
Deposits and balances due from banking institutions	18	2,555,871	2,582,928
Loans and advances to customers	19	8,831,650	8,612,523
Financial assets at fair value through other comprehensive income	20	614,512	669,245
Investment in Associates	22	268,490	-
Tax Recoverable	23	-	27,119
Investment in subsidiary	21	32,048	32,048
Other Assets	24	194,253	174,274
Deferred income tax	25	134,449	111,197
Right of use asset	26	121,850	136,353
Intangible Assets	26	97,240	91,370
Property and equipment	26	82,495	70,511
TOTAL ASSETS		**17,289,207**	**17,225,446**
LIABILITIES			
Deposits and balances due to banking institutions	27	1,672,232	2,077,535
Customers deposits	28	7,265,076	6,201,947
Borrowings	29	4,048,643	4,672,533
Tax liability		5,664	-
Lease liabilities	33(b)	153,316	156,018
Other liabilities	30	320,994	294,755
		13,465,925	13,402,788
EQUITY			
Share capital	30	1,042,500	1,042,500
Retained earnings		1,240,104	1,352,202
Statutory reserves	37 (a)	997,608	832,890
Other reserves	37 (b)	543,070	595,066
		3,823,282	3,822,658
TOTAL LIABILITIES AND EQUITY		**17,289,207**	**17,225,446**

The financial statements set out on pages 18 to 85 were approved and authorised for issue by the Board of Directors on 11\3\ 2022 and were signed on its behalf by:

Johnson Kiniti

Sammy Chepkwony

The notes set out on pages 26 to 89 form an integral part of these financial statements.

Consolidated statement of changes in equity

	Share capital KShs.'000	Statutory reserves KShs.'000	Other reserves KShs.'000	Retained earnings KShs.'000	Total KShs.'000
2020					
At 1 January 2020	1,042,500	558,246	743,426	1,622,871	3,967,043
Comprehensive income for the year					
Profit for the year	-	-	-	21,830	21,830
Transfer to statutory reserves	-	274,644	-	(274,644)	-
Other comprehensive income for the year					
Change in fair value	-	-	(148,360)	-	(148,360)
Total comprehensive income for the year	-	274,644	(148,360)	(252,814)	(126,530)
At 31 December 2020	**1,042,500**	**832,890**	**595,066**	**1,370,057**	**3,840,513**
2021					
At 1 January 2021	1,042,500	832,890	595,066	1,370,057	3,840,513
Comprehensive income for the year					
Profit for the year	-	-	-	53,834	53,834
Transfer to statutory reserves	-	164,718	-	(164,718)	-
Other comprehensive income for the year					
Change in fair value	-	-	(51,996)		(51,996)
Total comprehensive income for the year	-	164,718	(51,996)	(110,884)	1,838
At 31 December 2021	**1,042,500**	**997,608**	**543,070**	**1,259,173**	**3,842,351**

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Bank statement of changes in equity

	Share capital KShs.'000	Statutory reserves KShs.'000	Other reserves KShs.'000	Retained earnings KShs.'000	Total KShs.'000
2020					
At 1 January 2020	1,042,500	558,246	743,426	1,606,267	3,950,439
Comprehensive income for the year					
Profit for the year	-	-	-	20,579	20,579
Transfer to statutory reserves	-	274,644	-	(274,644)	-
Other comprehensive income for the year					
Changes in fair value	-	-	(148,360)	-	(148,360)
Total comprehensive income for the year	-	274,644	(148,360)	(254,065)	(127,781)
At 31 December 2020	**1,042,500**	**832,890**	**595,066**	**1,352,202**	**3,822,658**
2021					
At 1 January 2021	1,042,500	832,890	595,066	1,352,202	3,822,658
Comprehensive income for the year					
Profit for the year	-	-	-	52,620	52,620
Transfer to statutory reserves	-	164,718	-	(164,718)	-
Other comprehensive income for the year					
Change in fair value	-	-	(51,996)	-	(51,996)
Total comprehensive income for the year	-	164,718	(51,996)	(112,098)	624
At 31 December 2021	**1,042,500**	**997,608**	**543,070**	**1,240,104**	**3,823,282**

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Consolidated statement of cash flows

	Note	2021 KShs.'000	2020 KShs.'000
Operating activities			
Profit before taxation		66,623	20,541
Depreciation	26	76,962	70,789
Fixed assets written off		2,929	-
Interest on lease liabilities	33	19,032	19,390
Interest charged on borrowings		30,410	12,604
Interest paid on lease liabilities	33	(17,260)	(38,279)
Tax paid	23	(309)	(310)
Cash flows from operating activities before changes in operating assets and liabilities		178,387	84,735
Changes in operating assets and liabilities			
Loans to customers		(211,684)	(698,243)
Deposits held for regulatory purposes		(55,500)	26,079
Investments in treasury bonds		160,906	599,273
Deposits due from banks longer than 90 days		151,256	(327,982)
Other assets		(288,469)	51,822
Deposits due to banks longer than 90 days		(177,052)	177,052
Customer's deposits		1,061,346	1,110,280
Other liabilities (net of lease liabilities)		19,137	(26,290)
Net cash generated from operations		838,327	996,726
Cash flows from investing activities			
Purchase of property and equipment	26	(83,302)	(53,440)
Proceeds from sale of property		60	-
Net cash used in investing activities		(83,242)	(53,440)
Cash flows from financing activities			
Interest paid on borrowings		(30,410)	(12,604)
Lease principal payments		(4,474)	(8,239)
Loans receipts		-	500,000
Loans repayments		(623,890)	(704,635)
Net cash used in financing activities		(658,774)	(225,478)
Net increase in cash and cash equivalents		96,311	717,808
Cash and cash equivalents balances as at start of year		762,915	45,107
Cash and cash equivalents at end of year	32	**859,226**	**762,915**

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Bank statement of cash flows

	Note	2021 KShs.'000	2020 KShs.'000
Operating activities			
Profit before taxation		64,888	18,880
Depreciation	26	76,962	70,789
Fixed assets written off		2,929	-
Interest on lease liabilities	33	19,032	19,390
Interest charged on borrowings		30,410	12,604
Interest paid on lease liabilities	33	(17,260)	(38,279)
Cash flows from operating activities before changes in operating assets and liabilities		176,961	83,384
Changes in operating assets and liabilities			
Loans to customers		(211,684)	(698,243)
Deposits held for regulatory purposes		(55,500)	26,079
Investments in treasury bonds		160,890	599,258
Deposits from banks longer than 90 days		151,256	(327,982)
Other assets		(288,469)	51,821
Deposits due to other banks longer than 90 days		(177,052)	177,052
Customer's deposits		1,063,129	1,111,868
Other liabilities		18,796	(26,511)
Net cash generated from operations		838,327	996,726
Cash flows from investing activities			
Purchase of property and equipment	26	(83,302)	(53,440)
Proceeds from sale of property		60	-
Net cash used in investing activities		(83,242)	(53,440)
Cash flows from financing activities			
Interest paid on loan capital		(30,410)	(12,604)
Lease principal payments		(4,474)	(8,239)
Loans received		-	500,000
Loans repaid		(623,890)	(704,635)
Net cash used in financing activities		(658,774)	(225,478)
Net increase in cash and cash equivalents		96,311	717,808
Cash and cash equivalents as at start of year		762,915	45,107
Cash and cash equivalents at end of year	32	**859,226**	**762,915**

The notes set out on pages 26 to 85 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Development Bank of Kenya Limited (the "Group", "Bank" or the "Company") is incorporated as a limited company in Kenya under the Kenyan Companies Act 2015, and is domiciled in Kenya. The address of its registered office is as follows:

Finance House
Loita Street
P.O. Box 30483, 00100
Nairobi

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act, 2015, as amended.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and profit or loss account by the statement of comprehensive income in these financial statements.

The consolidated and separate financial statements are prepared in millions of Kenya Shillings (Ksh 'million), the functional currency of the Group. All amounts have been rounded to the nearest thousand (Ksh' 000) except when otherwise indicated.

2. Summary of significant accounting policies

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

(a) Basis of preparation

Changes in accounting policies and disclosures

(i) New standards, amendments and interpretations effective and adopted during the year

During the current year, the bank has adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC that are relevant to its operations and effective for the annual periods beginning on 1 January 2021. The impact of the adoption of these new and revised standards and interpretations has been documented below:

New standard or amendments	Effective for annual periods beginning on or after
— Interest Rate Benchmark Reform Phase 2	1 January 2021

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2021

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, and have not been applied in preparing these financial statements.

The Group does not plan to adopt these standards early. These are summarised below:

New standards or amendments	Effective for annual period beginning or after
• Onerous Contracts Cost of Fulfilling a Contract 01 Jan 2022 (Amendments to IAS 37)	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020	1 January 2022
• Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
• Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
• IFRS 17 Insurance Contracts	1 January 2023
• Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
• Amendments to IFRS 17	1 January 2023
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Optional and effective date deferred indefinitely

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the Group and Bank).

(b) Consolidation principles

The consolidated financial statements include the financial statements of Development Bank of Kenya Limited (DBK) and its wholly owned subsidiary company, Small Enterprises Finance Company Limited (SEFCO), which is controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions have been eliminated on consolidation (KShs. '000').

(c) Investments in associates

The bank's investment in Freshpick Processors (EPZ) at 43% is accounted for in the consolidated financial statements using the equity method. The investment was initially recorded at cost and subsequently adjusted to reflect the share of the net assets of the investment.

Notes to the financial statements (Continued)

(d) Foreign currency translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The consolidated financial statements are presented in Kenya shillings, which is the Group's functional currency. All financial information presented in these consolidated financial statements has been rounded off to the nearest thousand Kenya shillings

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

(e) Revenue recognition

Income is recognised on an accrual basis.

(i) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for Purchased or originated credit impaired ('POCI') financial assets and Financial assets that are not "POCI' but have subsequently become credit impaired. For Purchased or originated credit-impaired ('POCI') financial assets the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The

Notes to the financial statements (Continued)

calculation does not consider expected credit losses and includes transaction costs, and fees that are integral to the effective interest rate, such as origination fees.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset. For 'POCI' financial assets if any — assets that are credit-impaired at initial recognition — the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

(ii) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment are recognised as the related services are performed.

(iii) Dividend income

Dividend income is recognised once the right to receive the dividends has been established.

(f) Financial assets

(i) Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (continued)

(i) Measurement methods (continued)

Initial recognition and measurement

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the group recognises the difference as follows:

When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(ii) Classification and subsequent measurement

From 1 January 2018, the Group applied IFRS 9 and classifies its financial assets in the following measurement categories:

a) Fair value through profit or loss (FVPL);
b) Fair value through other comprehensive income (FVOCI); or
c) Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (continued)

(ii) Classification and subsequent measurement - continued

Debt instruments (continued)

Classification and subsequent measurement of debt instruments depend on:

(a) The Group's business model for managing the asset; and
(b) the cash flow characteristics of the 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 amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described under the expected credit loss measurement section. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial assets classified in this category include treasury bills and treasury bonds purchased from the secondary market; loans and advances to banks and customers with fixed or determinate payment that are not quoted in active market.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, 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 Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through 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 and presented in the profit or loss statement within Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Financial instruments reclassified in this category are those that the Group holds principally for the purpose of short-term profit taking. These comprise mainly certain Treasury bonds.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (continued)

(ii) Classification and subsequent measurement - continued

Debt instruments (continued)

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 the 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 the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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 represent 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, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

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. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group has designated at FVOCI investments in a small portfolio of equity securities. The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term. There was no dividend recognised during the period nor transfers of the cumulative gain within equity.

(iii) Impairment

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

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (continued)

(iii) Impairment - continued

The measurement of ECL reflects:

(a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) The time value of money; and
(c) 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.

(iv) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank 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:

(a) 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.
(b) Whether any substantial new terms are introduced that substantially affects the risk profile of the loan.
(c) Significant extension of the loan term when the borrower is not in financial difficulty.
(d) Insertion of collateral, other security or credit enhancements 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. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also 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, and 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 (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (continued)

(v) 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.

(g) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Group recognizes a right-of-use asset and a lease liability from the date of initial application of IFRS 16 or at the lease commencement date for contracts after the date of initial application. 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.

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 re-measurements 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 profit rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines the incremental borrowing rate as the rate of external borrowing that would be applicable to access funding to acquire the right-of-use assets.

Lease payments included in the measurement of the lease liability comprise the following:

- 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 Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise an extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(f) Leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(h) Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

• Furniture and equipment	8 years
• Computers	3 years
• Motor vehicles	4 years
• Leasehold improvements	6 years
• Right of Use Assets	Lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(i) Income tax

(i) Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

(j) Employee benefits

(i) Post-employment benefits

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan.

Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as incurred. Any difference between the charge to profit or loss income and the contributions payable is recorded in the statement of financial position under other assets or liabilities.

(ii) Leave

All employees are entitled to such leave as is determined by the Bank from time to time. All annual leave must be taken in the year it is earned subject to a maximum of 15 days carried forward. The bank does not compensate staff leave days carried forward in excess of 15 days unless sanctioned and supported by the head of department.

Leave days not taken within policy are accrued for at the individual staff salary scale.

Notes to the financial statements (Continued)

2. Summary of significant accounting policies (Continued)

(k) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya net of cash ratio reserve, net balances from banking institutions, uncleared effects and investment in government securities with a maturity of three months or less from the date of acquisition.

(l) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(m) Provisions

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

(n) Non-financial guarantee contracts, letters of credit, performance bonds and loan commitments

Letters of credit, acceptances, guarantees and performance bonds, which are credit-related instruments, are generally given by the Group to support performance by a customer to third parties. Non-financial guarantees are those issued by the Group to a client to guarantee full and due performance of a contractor according to plans and specifications in a contract. If the contractor fails to perform under the contract, the Group will compensate the customer for losses incurred as a result and will then recoup the amount paid from the contractor.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments, the loss allowance is recognised as a provision.

3. Critical accounting estimates and judgements

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continuously reviewed on an ongoing basis are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

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

Notes to the financial statements (Continued)

3. Critical accounting estimates and judgements (Continued)

(a) Measurement of the expected credit allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income (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).

Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in Note 4(a), which also sets out key sensitivities of the ECL to changes in these elements.

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

(i) Determining criteria for significant increase in credit risk;
(ii) Choosing appropriate models and assumptions for the measurement of ECL;
(iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
(iv) Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 4(a).

(b) Income taxes

The Group/Bank 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 deferred tax provisions in the period in which such determination is made.

(c) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the statement of comprehensive income or within other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in Note 4 and the accounting policy set out in Note 2 to the financial statements.

Notes to the financial statements (Continued)

3. Critical accounting estimates and judgements (Continued)

(c) Fair value of financial instruments (continued)

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have an observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

(d) Coronavirus (Covid-19) pandemic

The Covid-19 pandemic and its effects on the global and local economy have impacted our operations, customers and the financial performance. Various governments and regulators responded in unprecedented ways to protect the health of their communities, while regulators introduced measures to protect the financial system. The pandemic has therefore increased the estimation uncertainty in the preparation of these financial statements including;

- The extent and duration of the disruption to business arising from the actions of governments, business and consumers to contain the spread of the virus;
- The effectiveness of the government and Central Bank of Kenya measures to support businesses and consumers through the disruption and economic downturn; and
- The extent and duration of the expected economic downturn and subsequent recovery. This includes impacts on credit quality, liquidity, capital markets, increasing unemployment, decline in, consumer spending, reduction in economic activities and other restricting activities.

The Bank has made various estimates for future events in the financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 and which the Bank believes are reasonable under the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties and largely related to expected credit losses, fair value measurement and

Notes to the financial statements (Continued)

the recoverable amount of non-financial assets. The impact of the Covid-19 pandemic on each of these estimates is included in the relevant notes to the financial statements.

4. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

(i) Credit risk;
(ii) Liquidity risk; and
(iii) Market risks, comprising of interest rate risk, currency risk and price risk

Group's risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Risk and Debt collection committees, which are responsible for developing and monitoring the Group's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the main Board on their activities.

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 services offered. 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 Group Board Audit 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. The Group Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from interbank, customer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure. Further, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Management of credit risk

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. The Board Credit Committee is responsible for oversight of the Group's credit risk, including:

(i) 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;
(ii) Establishing the authorization structure for the approval and renewal of credit facilities;
(iii) Reviewing and assessing credit risk. Group credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
(iv) Limiting concentrations of exposure to counterparties and industries for loans and advances;
(v) Developing and maintaining the Group's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk;
(vi) Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
(vii) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Management of credit risk - continued

Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Group uses credit risk grading that reflect its assessment of the probability of default and specific characteristics of individual counterparties. Various qualitative and quantitative factors such as the facility arrears status, facility restructures as well as specific industry risk assessment are considered. In addition, the credit grading enable expert judgement from the credit risk team to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Expected credit loss measurement - continued

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is provided in this note.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk based on its assessment of both quantitative factors and qualitative factors or when the backstop criteria have been met.

Quantitative criteria: This considers the facilities arrears status and considers whether expected contractual payments are 30 days past due.

Qualitative criteria: This considers whether the facility has been restructured due to cash flow difficulties experienced by the customer as well as an assessment of perceived risk of the industry in which the facility falls in. Further the group assesses the perceived risk of the obligor in assessment of financial instrument to have experienced a significant increase in credit risk.

The assessment of SICR incorporates forward-looking information. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team. A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2020.

Definition of default and credit-impaired assets:

The Group defines a financial instrument as in default when the borrower is more than 90 days past due on its contractual payments. The definition has been used consistently across all ECL inputs i.e. PD, EAD and LGD. The criteria above 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.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Significant increase in credit risk (SICR) - continued

Measuring ECL — Explanation of inputs, assumptions and estimation techniques:

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses 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 (as per "Definition of default), either over the next 12 months (12M 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).
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type 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 in 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). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the approximation of the original effective interest rate.

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 credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. The Group has based on the entity's historical experience, determined the time to realization. Forced sale values of the land and non-land collateral are also used in the determination of the LGD. In some cases, the group determines the forced sale value assumption taking into account factors such as the most recent revaluation reports on the collateral, the perceived risk of the client whose assets are secured by a negative pledges, any other claims on collateral in instances where the Bank's claim ranks pari passu to that of other lenders and the exposure of all of a client's facilities where a single client has multiple facilities secured by the same collateral.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Significant increase in credit risk (SICR) - continued

Measuring ECL — Explanation of inputs, assumptions and estimation techniques: - continued

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change etc. are monitored and on an ongoing basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The group reviews all inputs, assumptions and estimation techniques applied in measuring the ECL to assess any changes and appropriateness on an annual basis. Consideration is made to changes in the business, changes in the economy, changes in the factors affecting the PD, LGD, EAD and other inputs. Such changes are expected to be very infrequent. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period. Unless significant changes are identified, the Group expects to update the PDs, LGD and any other significant assumptions after every 3 years.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information using macro-economic overlays. Overlays were estimated and applied for three different scenarios, base case scenario, downside scenario and optimistic scenario. These macroeconomic overlays and the probability of each economic scenario occurring were set using management judgement based on the assessment of the Group's portfolio performance. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018, 31 December 2019 and 31 December 2020, for all portfolios the Group concluded that three scenarios appropriately captured non-linearities.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of 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 established that the chosen scenarios are appropriately representative of the range of possible scenarios.

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 homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Significant increase in credit risk (SICR) - continued

Maximum exposure to credit risk — Financial instruments subject to impairment.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

The following table contains an analysis of the credit risk exposure (credit quality analysis) of financial instruments for which an ECL allowance is recognised.

The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Group	**31-Dec-21**				**31-Dec-20**
	Stage 1 KShs.'000	**Stage 2 KShs.'000**	**Stage 3 KShs.'000**	**Total KShs.'000**	**Total KShs.'000**
Cash and balances with Central Bank of Kenya	482,236	-	-	**482,236**	682,875
Financial assets at fair value through profit or loss	104,129	-	-	**104,129**	103,177
Financial assets at fair value through other comprehensive income	3,791,012	-	-	**3,791,012**	3,952,870
Deposits and balances due from banking institutions	2,555,871	-	-	**2,555,871**	2,582,928
Loans and advances to customers	4,704,628	2,374,173	3,191,139	**10,269,940**	10,189,074
Undrawn loan commitments	708,655	-	-	**708,655**	254,716
Other financial assets	174,167	-	-	**174,167**	153,761
Letters of credit and guarantees	1,705,017	-	-	**1,705,017**	966,362
Gross carrying amount	**14,225,715**	**2,374,173**	**3,191,139**	**19,791,027**	18,885,763
Impairment losses on financial assets	(179,442)	(254,975)	(1,003,873)	(1,438,290)	(1,576,551)
Net carrying amount	**14,046,273**	**2,119,198**	**2,187,266**	**18,352,737**	17,309,212

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Bank	31-Dec-21 Stage 1 KShs.'000	Stage 2 KShs.'000	Stage 3 KShs.'000	Total KShs.'000	31-Dec-20 Total KShs.'000
Cash and balances with central Bank of Kenya	482,236	-	-	**482,236**	682,875
Financial assets at fair value through profit or loss	104,129	-	-	**104,129**	103,177
Financial assets at fair value through other comprehensive income	3,769,984	-	-	**3,769,984**	3,931,826
Deposits and balances due from banking institutions	2,555,871	-	-	**2,555,871**	2,582,928
Loans and advances to customers	4,704,628	2,374,173	3,135,007	**10,213,808**	10,133,075
Undrawn loan commitments	708,655	-	-	**708,655**	254,716
Other financial assets	174,167	-	-	**174,167**	153,761
Letters of credit and guarantees	1,705,017	-	-	**1,705,017**	966,362
Gross carrying amount	**14,204,687**	**2,374,173**	**3,135,007**	**19,713,867**	18,808,720
Impairment losses on financial assets	(179,442)	(254,975)	(947,741)	(1,382,158)	(1,520,552)
Net carrying amount	**14,025,245**	**2,119,198**	**2,187,266**	**18,331,709**	17,288,168

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

The movement in the allowance for impairment for debt securities at amortised cost during the year was as follows (see Note 19 for the movement for the year ended 31 December 2021):

	31-Dec-21			
Group	**Stage 1 12 month ECL KShs.'000**	**Stage 2 Lifetime ECL KShs.'000**	**Stage 3 Lifetime ECL KShs.'000**	**Total KShs.'000**
Loans and advances at amortised cost				
Balances at 1 January	133,617	251,764	1,191,170	**1,576,551**
Transfer to Stage 1 (12 month ECL)	(910)	339	571	-
Transfer to Stage 2 (lifetime ECL not credit impaired)	27,982	(79,636)	51,655	-
Transfer to Stage 3 (lifetime ECL credit impaired)	2,175	48,222	(50,396)	-
Net remeasurement of loss allowances	7,131	34,356	(98,442)	**(56,955)**
New financial assets originated or purchased	10,600	-	-	**10,600**
Financial assets derecognised	(1,153)	(70)	(12)	**(1,233)**
Write offs	-	-	-	-
Recoveries from write offs	-	-	(90,673)	**(90,673)**
Balance at 31 December	**179,442**	**254,975**	**1,003,873**	**1,438,290**

Bank	**Stage 1 12 month ECL KShs.'000**	**Stage 2 Lifetime ECL KShs.'000**	**Stage 3 Lifetime ECL KShs.'000**	**Total KShs.'000**
Loans and advances at amortised cost				
Balances at 1 January	133,617	251,764	1,135,171	**1,520,552**
Transfer to Stage 1 (12 month ECL)	(910)	339	571	-
Transfer to Stage 2 (lifetime ECL not credit impaired)	27,982	(79,636)	51,655	-
Transfer to Stage 3 (lifetime ECL credit impaired)	2,175	48,222	(50,396)	-
Net remeasurement of loss allowances	7,131	34,356	(98,575)	**(57,088)**
New financial assets originated or purchased	10,600	-	-	**10,600**
Financial assets derecognised	(1,153)	(70)	(11)	**(1,233)**
Write offs	-	-	(90,673)	**(90,673)**
Recoveries from write offs	-	-	-	-
Balance at 31 December	**179,442**	**254,975**	**947,741**	**1,382,158**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Group	31-Dec-20 Stage 1 12 month ECL KShs.'000	Stage 2 Lifetime ECL KShs.'000	Stage 3 Lifetime ECL KShs.'000	Total KShs.'000
Loans and advances at amortised cost				
Balances at 1 January	66,082	339,535	1,092,625	**1,498,242**
Transfer to Stage 1 (12 month ECL)	(29,364)	4,911	24,453	-
Transfer to Stage 2 (lifetime ECL not credit impaired)	35,710	(50,322)	14,612	-
Transfer to Stage 3 (lifetime ECL credit impaired)	117	10,435	(10,552)	-
Net remeasurement of loss allowances	56,256	(53,010)	149,994	**153,240**
New financial assets originated or purchased	5,740	1,532	-	**7,272**
Financial assets derecognised	(924)	(1,317)	(14,778)	**(17,019)**
Recoveries from write offs	-	-	(65,184)	**(65,184)**
Balance at 31 December	**133,617**	**251,764**	**1,191,170**	**1,576,551**

Bank	Stage 1 12 month ECL KShs.'000	Stage 2 Lifetime ECL KShs.'000	Stage 3 Lifetime ECL KShs.'000	Total KShs.'000
Loans and advances at amortised cost				
Balances at 1 January	66,082	339,535	1,036,529	**1,442,146**
Transfer to Stage 1 (12 month ECL)	(29,364)	4,911	24,453	-
Transfer to Stage 2 (lifetime ECL not credit impaired)	35,710	(50,322)	14,612	-
Transfer to Stage 3 (lifetime ECL credit impaired)	117	10,435	(10,552)	-
Net remeasurement of loss allowances	56,256	(53,010)	149,524	**152,770**
New financial assets originated or purchased	5,740	1,532	-	**7,272**
Financial assets derecognised	(924)	(1,317)	(14,261)	**(16,502)**
Write offs	-	-	-	-
Recoveries from write offs	-	-	(65,134)	**(65,134)**
Balance at 31 December	**133,617**	**251,764**	**1,135,171**	**1,520,552**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

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. Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2021 or 2020.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. The Group closely monitors collateral held for financial assets, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

The Group closely monitors collateral held for financial assets, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Loans and advances to customers

	At 31 December 2021			
Group	**Gross exposure Ksh'000**	**Impairment allowance Ksh'000**	**Carrying amount Ksh'000**	**Fair value of collateral held Ksh'000**
Carrying amount	10,269,940	1,438,290	**8,831,650**	**16,135,548**
Bank	**Gross exposure Ksh'000**	**Impairment allowance Ksh'000**	**Carrying amount Ksh'000**	**Fair value of collateral held Ksh'000**
Carrying amount	10,213,808	1,382,158	**8,831,650**	**16,135,548**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements - continued

Loans and advances to customers — **At 31 December 2020**

Group	**Gross exposure Ksh'000**	**Impairment allowance Ksh'000**	**Carrying amount Ksh'000**	**Fair value of collateral held Ksh'000**
Carrying amount	10,189,074	1,576,551	**8,612,523**	**18,326,779**

Bank	**Gross exposure Ksh'000**	**Impairment allowance Ksh'000**	**Carrying amount Ksh'000**	**Fair value of collateral held Ksh'000**
Carrying amount	10,133,075	1,520,552	**8,612,523**	**18,326,779**

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, Exposure At Default (EADs) and Loss Given Default (LGDs) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when Group Credit determines that the loans are uncollectible. This is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire

Notes to the financial statements (Continued)
4. Financial risk management (Continued)

exposure. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

(a) Credit risk (continued)

Collateral and other credit enhancements - continued

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Such restructuring activities include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

Concentration by Sector

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	**2021** **KShs.'000**	**2020** **KShs.'000**
Agriculture	885,461	957,372
Manufacturing	1,618,940	1,792,249
Building and construction	223,585	205,406
Trade	3,117,429	2,826,169
Tourism, restaurants, and hotels	375,689	352,646
Transport and communication	346,930	334,443
Real estate	3,381,267	3,354,865
Financial services	4,246	15,939
Personal households	316,393	349,985
	10,269,940	**10,189,074**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(a) Credit risk (continued)

Exposure to credit risk

	2021		2020	
	Group KShs.'000	**Bank KShs.'000**	**Group KShs.'000**	**Bank KShs.'000**
Balances with Central Bank of Kenya	482,236	482,236	682,875	682,875
Deposits and balances due from banking institutions	2,555,871	2,555,871	2,582,928	2,582,928
Loans and advances	8,831,650	8,831,650	8,612,523	8,612,523
Financial assets at fair value through profit or loss	104,129	104,129	103,177	103,177
Financial assets at amortised cost	3,791,012	3,769,984	3,952,870	3,931,826
Other assets	194,253	194,253	174,274	174,274
Financial assets at fair Through profit or loss	614,512	614,512	669,245	669,245
	16,573,663	**16,552,635**	**16,777,892**	**16,756,848**

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group strives 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.

Treasury receives information from other departments of the bank regarding cash requirements and integrates this information in form of projected cash flows. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole.

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 ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(b) Liquidity risk (continued)

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. 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	25.9%	22.4%
Average for the period	23.7%	18.3%
Maximum for the period	27.6%	25.2%
Minimum for the period	20.6%	7.6%

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(b) Liquidity risk (continued)

The table below analyses the Banks's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual cash flows :

Group

	0 to 1 month KShs.'000	1 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Total KShs.'000
At 31 December 2021						
Liabilities						
Due to banking institutions	1,672,232	-	-	-	-	1,672,232
Customer deposits	2,473,382	3,106,068	1,412,472	70,905	173,484	7,236,311
Borrowings	3,402,745	11,938	194,393	220,710	218,857	4,048,643
Lease liabilities	10,019	-	14,293	133,815	43,953	202,080
Other liabilities	6,609	-	53,780	39,553	222,505	322,447
Total liabilities	**7,564,987**	**3,118,006**	**1,674,938**	**464,983**	**658,799**	**13,481,713**
At 31 December 2020						
Liabilities						
Due to banking institutions	228,879	1,671,604	177,052	-	-	2,077,535
Customer deposits	2,254,567	1,911,154	1,669,934	337,310	2,000	6,174,965
Borrowings	3,833,194	77,201	76,124	664,851	21,163	4,672,533
Lease liabilities	6,732	-	20,197	141,207	94,185	262,321
Other liabilities	53,442	6,954	48,118	44,884	142,469	295,867
Total liabilities	**6,376,814**	**3,666,913**	**1,991,425**	**1,188,252**	**259,817**	**13,483,221**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(b) Liquidity risk (continued)

Group
At 31 December 2021

	0 to 1 month KShs.'000	1 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Total KShs.'000
Assets						
Cash and balances with Central Bank of Kenya	178,526	-	-	-	303,710	482,236
Financial assets at fair value through Profit &Loss	-	-	-	-	104,129	104,129
Financial assets at amortised cost	-	-	399,482	999,527	2,392,003	3,791,012
Due from other banks	737,414	1,615,518	202,939	-	-	2,555,871
Loans and advances to customers	1,015,098	1,411,142	1,566,003	1,923,847	2,915,560	8,831,650
Financial assets at fair value through Other Comprehensive Income	-	-	-	-	614,512	614,512
Other assets	30,129	48,164	47,327	48,164	20,469	194,253
Total assets	**1,961,167**	**3,074,824**	**2,215,751**	**2,971,538**	**6,350,383**	**16,573,663**

At 31 December 2020

	0 to 1 month KShs.'000	1 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Total KShs.'000
Assets						
Cash and balances with Central Bank of Kenya	434,665	-	-	-	248,210	682,875
Financial assets at fair value through Profit & Loss	-	-	-	-	103,177	103,177
Financial assets at amortised cost	-	-	154,612	1,353,999	2,444,259	3,952,870
Due from other banks	657,478	1,571,255	174,135	180,060	-	2,582,928
Loans and advances to customers	910,032	314,084	1,004,930	2,316,633	4,066,844	8,612,523
Financial assets at fair value through Other Comprehensive Income	-	-	-	-	669,245	669,245
Other assets	43,658	21,829	43,658	43,658	21,471	174,274
Total assets	**2,045,833**	**1,907,168**	**1,377,335**	**3,894,350**	**7,553,206**	**16,777,892**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Overall authority for market risk is vested in ALCO. The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group is primarily exposed to interest rate risk and foreign exchange risk.

(i) Interest rate risk

This 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. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates is shown on the next page.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100, 50, and 25 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	2021 KShs.'000	**2020 KShs.'000**
100 Basis points upward parallel shift	(4,394)	(7,108)
50 Basis points upward parallel shift	(2,229)	(2,449)
25 Basis points upward parallel shift	(1,223)	(1,234)
100 Basis points downward parallel shift	1,139	1,255
50 Basis points downward parallel shift	2,296	2,530
25 Basis points downward parallel shift	4,662	5,146

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2021 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group

At 31 December 2021	Effective interest rate	0 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Non-interest bearing KShs.'000	Total KShs.'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	482,236	482,236
Financial assets at fair value through P&L	11.25	-	-	-	104,129	-	104,129
Financial assets at amortised cost	11.75	-	399,482	999,527	2,392,003	-	3,791,012
Due from banking institutions	6.37	737,414	1,615,518	202,939	-	-	2,555,871
Loans and advances to customers	11.54	1,015,098	1,411,142	1,566,003	4,839,407	-	8,831,650
Other assets	-	-	-	-	-	194,253	194,253
Total assets		**1,752,512**	**3,426,142**	**2,768,469**	**7,335,539**	**676,489**	**15,959,151**
Liabilities							
Due to banking institutions	2.66	1,672,232	-	-	-	-	1,672,232
Customers' deposits	8.81	2,473,382	3,106,068	1,412,472	244,389	-	7,236,311
Borrowings	6.42	3,402,745	11,938	194,393	439,567	-	4,048,643
Other liabilities	-	-	-	-	-	322,447	322,447
Total liabilities		**7,548,359**	**3,118,006**	**1,606,865**	**683,956**	**322,447**	**13,279,633**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2020 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group

At 31 December 2020	Effective interest rate	0 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Non-interest bearing KShs.'000	Total KShs.'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	682,875	682,875
Financial assets at fair value through P&L	11.25	-	-	-	103,177	-	103,177
Financial assets at amortised cost	11.76	-	154,612	1,353,999	2,444,259	-	3,952,870
Due from banking institutions	3.62	370,514	2,021,134	191,280	-	-	2,582,928
Loans and advances to customers	11.75	1,224,116	1,004,930	2,316,633	4,066,844	-	8,612,523
Other assets	-	-	-	-	-	174,274	174,274
Total assets		**1,594,630**	**3,180,676**	**3,861,912**	**6,614,280**	**857,149**	**16,108,647**
Liabilities							
Due to banking institutions	1.24	10,079	45,055	2,022,401	-	-	2,077,535
Customers' deposits	8.80	4,165,721	1,669,934	337,310	2,000	-	6,174,965
Borrowings	6.42	3,910,395	76,124	664,851	21,163	-	4,672,533
Other liabilities	-	-	-	-	-	295,867	295,867
Total liabilities		**8,086,195**	**1,791,113**	**3,024,562**	**23,163**	**295,867**	**13,220,900**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2021 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Bank

At 31 December 2021	Effective interest rate	0 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Non-interest bearing KShs.'000	Total KShs.'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	482,236	482,236
Financial assets at fair value through P&L	11.25	-	-	-	104,129	-	104,129
Financial assets at amortised cost	11.75	-	399,482	999,527	2,370,975	-	3,769,984
Due from banking institutions	6.37	737,414	1,615,518	202,939	-	-	2,555,871
Loans and advances to customers	11.54	1,015,098	1,411,142	1,566,003	4,839,407	-	8,831,650
Other assets	-	-	-	-	-	194,253	194,253
Total assets		**1,752,512**	**3,426,142**	**2,768,469**	**7,314,511**	**676,489**	**15,938,123**
Liabilities							
Due to banking institutions	2.66	1,672,232	-	-	-	-	1,672,232
Customers' deposits	8.81	2,502,147	3,106,068	1,412,472	244,389	-	7,265,076
Borrowings	6.50	3,402,745	11,938	194,393	439,567	-	4,048,643
Other liabilities		-	-	-	-	320,994	320,994
Total liabilities		**7,577,124**	**3,118,006**	**1,606,865**	**683,956**	**320,994**	**13,306,945**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(i) Interest rate risk – continued

The table below summarises the exposure to interest rate risks. Included in the table below are the Bank's assets and liabilities for 2020 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Bank

At 31 December 2020	Effective interest rate	0 to 3 months KShs.'000	3 to 12 months KShs.'000	1 to 5 years KShs.'000	Over 5 years KShs.'000	Non-interest bearing KShs.'000	Total KShs.'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	682,875	682,875
Financial assets at fair value through P&L	11.25	-	-	-	103,177	-	103,177
Financial assets at amortised cost	11.76	-	154,612	1,353,999	2,423,215	-	3,931,826
Due from banking institutions	3.62	370,514	2,021,134	191,280	-	-	2,582,928
Loans and advances to customers	11.75	1,224,116	1,004,930	2,316,633	4,066,844	-	8,612,523
Other assets	-	-	-	-	-	174,274	174,274
Total assets		**1,594,630**	**3,180,676**	**3,861,912**	**6,593,236**	**857,149**	**16,087,603**
Liabilities							
Due to banking institutions	1.24	10,079	45,055	2,022,401	-	-	2,077,535
Customers' deposits	8.80	4,192,703	1,669,934	337,310	2,000	-	6,201,947
Borrowings	6.42	3,910,395	76,124	664,851	21,163	-	4,672,533
Other liabilities		-	-	-	-	294,755	294,755
Total liabilities		**8,113,177**	**1,791,113**	**3,024,562**	**23,163**	**294,755**	**13,246,770**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(ii) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The table below analyses the currencies to which the Group and the Bank are exposed at 31 December 2021:

At 31 December 2021	USD KShs.'000	GBP KShs.'000	Euro KShs.'000	Other KShs.'000	Total KShs.'000
Assets					
Cash and balances with Central Bank of Kenya	114,082	1,422	103,777	615	219,896
Deposits and balances due from banking institutions	285,257	292	94,138	4,887	384,574
Loans and advances to customers	184,106	-	1,020,252	-	1,204,358
Other assets	90,011	-	25,761	-	115,772
Total foreign currency assets	673,456	1,714	1,243,928	5,502	1,924,600
Liabilities					
Borrowings	157,674	-	-	-	157,674
Deposits and balances due to banking institutions	452,265	-	1,151,939	-	1,604,504
Deposit and balance due to customers	87,751	-	-	-	87,751
Other liabilities	177,318	1,857	5,784	-	184,959
Total foreign currency liabilities	875,308	1,857	1,157,723	-	2,034,888
Foreign currency exposure at 31 December 2021	**(201,852)**	**(143)**	**86,205**	**5,502**	**(110,288)**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(c) Market risk (continued)

(ii) Currency risk – continued

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The table below analyses the currencies to which the Group and the Bank are exposed at 31 December 2020:

	USD	GBP	Euro	Other	Total
At 31 December 2020	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**	**KShs.'000**
Assets					
Cash and balances with Central Bank of Kenya	116,321	3,157	100,057	697	220,232
Deposits and balances due from banking institutions	653,666	-	157,746	-	811,412
Loans and advances to customers	355,163	-	1,177,918	-	1,533,081
Other assets	-	-	-	-	-
Total foreign currency assets	1,125,150	3,157,	1,435,721	697	2,564,725
Liabilities					
Borrowings	303,862	48	-	-	303,910
Deposits and balances due to banking institutions	600,441	-	1,405,903	-	2,006,344
Deposit and balance due to customers	43,174	2,667	5,795	-	51,636
Other liabilities	-	-	-	-	-
Total foreign currency liabilities	947,,477	2,715	1,411,698	-	2,361,890
Foreign currency exposure at 31 December 2020	**177,673**	**442**	**24,023**	**697**	**202,835**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(d) Capital management

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole.

In implementing current capital requirements the Central Bank of Kenya requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as financial assets through OCI.

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 Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

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

	2021	2020
Core capital (Tier 1)	**KShs.'000**	**KShs.'000**
Paid up share capital	1,042,500	1,042,500
Retained earnings	1,240,104	1,352,202
Other reserves	281	281
Core capital	**2,282,885**	**2,394,983**
Minimum statutory capital	1,000,000	1,000,000
Excess capital	**1,282,885**	**1,394,983**
Supplementary capital (Tier 2)	301,096	300,127
Total capital	**2,583,981**	**2,695,110**
Total risk weighted assets	**13,231,914**	**8,128,605**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(d) Capital management (continued)

Capital adequacy ratios

	2020	2020
Percentage of Core Capital to Risk Weighted Asset ratio	17.3%	19.8%
Minimum requirement	10.5%	10.5%
Percentage of Total Capital to Risk Weighted Asset ratio	19.5%	22.2%
Minimum requirement	14.5%	14.5%
Percentage of Core Capital to Deposits ratio	31.3%	38.3%
Minimum requirement	8.0%	8.0%

(e) Fair value measurement

Fair value hierarchy

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

- 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 in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

As at 31 December 2021	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total KShs.'000
Assets				
Fair value through profit or loss	-	104,129	-	104,129
Fair value through other comprehensive income	-	-	614,512	614,512
Loans and advances	-	-	8,831,650	8,831,650
Total assets	**-**	**104,129**	**9,446,162**	**9,550,290**

As at 31 December 2020	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total KShs.'000
Assets				
Fair value through profit or loss	-	103,177	-	103,177
Fair value through other comprehensive income	-	-	669,245	669,245
Loans and advances	-	-	8,612,523	8,612,523
Total assets	**-**	**103,177**	**9,281,768**	**9,481,768**

Notes to the financial statements (Continued)

4. Financial risk management (Continued)

(e) Fair value measurement (continued)

Financial instruments in level 2

The fair value of these financial assets is determined by using valuation techniques which maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. Specifically, the directors have used the discounted cash flow technique using quoted yields for the same or similar products.

5. Interest income

Group

	2021 KShs.'000	2020 KShs.'000
Loans and advances to customers	398,583	324,649
Overdrafts	319,045	333,017
Financial assets at fair value through profit or loss	12,202	12,051
Financial assets at amortised cost	435,606	460,118
Deposits and balances due from banking institutions	87,958	84,090
	1,253,394	**1,213,925**

Bank

	2021 KShs.'000	2020 KShs.'000
Loans and advances to customers	398,583	324,649
Overdrafts	319,045	333,017
Financial assets at fair value through profit or loss	12,202	12,051
Financial assets at amortised cost	433,371	457,883
Deposits and balances due from banking institutions	87,958	84,090
	1,251,159	**1,211,690**

Included within interest income on investment securities for the year ended 31 December 2021 is KShs 433,371,000 (2020: KShs 457,883,000) relating to debt securities held at amortised cost.

6. Interest expense

Group

	2021 KShs.'000	2020 KShs.'000
Customer deposits	601,301	515,743
Deposits and balances due to banking institutions	47,782	74,711
Borrowings	249,967	258,367
	899,050	**848,821**

Notes to the financial statements (Continued)

6. Interest expense (Continued)

Bank

	2021 KShs.'000	2020 KShs.'000
Customer deposits	601,862	516,303
Deposits and balances due to banking institutions	47,782	74,711
Borrowings	249,967	258,367
	899,611	**849,381**

7. Net fees and commissions income

Group and Bank

Commissions on loans and advances	16,506	7,984
Other fees	14,671	14,247
	31,177	**22,231**

Other fees relate to ledger fee

8. Other operating income

Group

Other operating income

Gains arising from dealing in foreign currencies	21,942	81,150
Other income	-	610
	21,942	**81,760**

Bank

Other operating income

Gains arising from dealing in foreign currencies	21,942	81,150
Other income	-	610
	21,942	**81,760**

9. Operating expenses

Group

Salaries and employee benefits (Note 10)	196,507	207,477
Occupancy expenses	13,993	12,864
Deposit Protection Fund	9,789	8,633
Depreciation	76,962	70,789
Directors' emoluments	20,915	17,608
Professional and legal services	15,500	15,650
Telecommunication	4,387	3,982
Other expenses	95,324	80,414
	433,377	**417,417**

Notes to the financial statements (Continued)

		2021 KShs.'000	2020 KShs.'000
9.	**Operating expenses (Continued)**		
	Bank		
	Salaries and employee benefits (Note 10)	196,507	207,477
	Occupancy expenses	13,993	12,864
	Deposit Protection Fund	9,789	8,633
	Depreciation	76,962	70,789
	Directors' emoluments	20,815	17,508
	Professional and legal services	15,500	15,650
	Telecommunication	4,387	3,982
	Other expenses	94,496	79,738
		432,449	**416,641**

10. Salaries and employee benefits

Group and Bank

	2021 KShs.'000	2020 KShs.'000
Salaries	148,705	156,770
Contributions to defined contribution plans	18,058	18,590
National Social Security Fund	860	921
Other staff costs	28,884	31,196
	196,507	**207,477**

11. Profit before taxation

Profit before taxation is arrived at after charging:

	2021 KShs.'000	2020 KShs.'000
Group		
Depreciation expense (Note 25)	76,962	70,789
Director's emoluments:		
– Fees as non-executive	2,200	1,900
– Other*	18,915	15,708
Auditors' remuneration	3,000	2,650
Bank		
Depreciation expense (Note 25)	76,962	70,789
Director's emoluments:		
• Fees as non-executive	2,100	1,800
• Other*	18,715	15,708
Auditors' remuneration	3,000	2,400

* Directors emoluments 'other' include sitting allowances, chairman's honorarium and director's travel expenses.

Notes to the financial statements (Continued)

12. Income tax expense

	2021		2020	
Group	**Group KShs.'000**	**Bank KShs.'000**	**Group KShs.'000**	**Bank KShs.'000**
Current income tax	33,334	32,783	440	-
Deferred income tax (Note 24)	(20,545)	(20,515)	(1,729)	(1,699)
	12,789	**12,268**	**1,289**	**(1,699)**

The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

Group	**2021 KShs.'000**	**2020 KShs.'000**
Accounting profit before tax	66,623	20,541
Computed tax using the applicable corporation tax rate of 30% (2020:25%)	19,987	5.135
Deferred tax at 30%	-	339
Tax impact of expenses not deductible for tax purposes	(7,198)	(6,763)
Income tax expense	**12,789**	**(1,289)**

Bank		
Accounting profit before tax	64,888	18,880
Computed tax using the applicable corporation tax rate of 30% (2020:25%)	19,466	4,720
Deferred tax at 30%	-	344
Tax impact of expenses not deductible for tax purposes	(7,198)	(6,763)
Income tax expense	**12,268**	**(1,699)**

13. Equity investment designated as FVOCI

Group and Bank

Revaluation loss on equity investment	(54,733)	(156,168)
Related deferred tax	2,737	7,808
	51,996	**(148,360)**

14. Dividend per share

The Bank did not pay an interim dividend in the year (2020: Nil). The Company does not propose payment of a final dividend (2020: Nil).

Notes to the financial statements (Continued)

15. Earnings per share

The calculation of basic earnings per share is based on:

Group	**2021**	**2020**
Net profit for the year attributable to shareholders (KShs.'000)	54,066	21,830
Number of ordinary shares ('000)	52,125	52,125
Earnings per share (Ksh)	1.04	0.42
Bank		
Net profit for the year attributable to shareholders (KShs.'000)	52,852	1,079,115
Number of ordinary shares ('000)	52,125	52,125
Earnings per share (Ksh)	1.01	20.70

There were no potentially dilutive shares outstanding at 31 December 2021 and 2020.

16. Cash and balances with Central Bank of Kenya

Group and Bank	**2021 KShs.'000**	**2020 KShs.'000**
Cash on hand	86,676	88,319
Balances with Central Bank of Kenya:		
— Local currency cash reserve ratio	303,710	248,210
— Other balances (available for use by the Bank)	91,850	346,346
	482,236	**682,875**

The cash reserve ratio is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2021, the cash reserve requirement was 5.25% (2020: 4.25%) of all customer deposits. These funds are available to finance the bank's day-to-day operations in a limited way provided that on any given day the balance does fall below the 3% minimum daily requirements and provided that the overall average in the month is at least 5.25%.

17. Financial assets (Investment in government securities)

	2021 KShs.'000	**2020 KShs.'000**
Group		
Financial assets at amortised cost		
Treasury bonds:		
Maturing within one year	399,482	154,612
Maturing after one year	3,391,530	3,798,258
	3,791,012	**3,952,870**
Financial assets at fair value through profit or Loss		
Treasury bonds:		
Maturing after one year	104,129	103,177
	3,895,141	**4,056,047**

Notes to the financial statements (Continued)

17. Financial assets (Continued)

	2021	2020
Bank	**KShs.'000**	**KShs.'000**
Financial Assets at amortised cost		
Treasury bonds:		
Maturing within one year	399,482	154,612
Maturing after one year	3,370,502	3,777,214
Total financial assets at amortized cost	3,769,984	3,931,826
Financial assets at fair value through profit or loss		
Treasury bonds:		
Maturing after one year	104,129	103,177
	3,874,113	**4,035,003**

The weighted average effective interest rate on government securities at 31 December 2021 was 11.75% (2020 – 11.76%). As at 31 December 2021, treasury bonds with face value of Ksh 3,351,000 (2020 – Ksh 3,386,000) had been pledged to secure borrowings from Central Bank of Kenya.

18. Deposits and balances due from banking institutions

	2020	2020
Group and Bank	**KShs.'000**	**KShs.'000**
Due within 90 days	2,352,932	2,228,733
Due between 3 months and 1 year	202,939	174,135
Due between 1 year and 5 year	-	180,060
	2,555,871	**2,582,928**

The weighted average effective interest rate on placements with other banks at 31 December 2021 was 3.62% (2020 – 3.62%).

19. Loans and advances to customers

	2020	
	Group	**Bank**
	KShs.'000	**KShs.'000**
Overdrafts	4,622,612	4,622,612
Loans	5,273,699	5,217,700
Staff loans	292,763	292,763
	10,189,074	10,133,075
Less: Expected Credit Loss	(1,576,551)	(1,520,552)
	8,612,523	**8,612,523**
Maturing within 1 year	2,244,984	2,244,984
Between 1 and 3 years	799,359	799,359
Over 3 years	5,568,180	5,568,180
	8,612,523	**8,612,523**

Notes to the financial statements (Continued)

19. Loans and advances (Continued)

	2021	
	Group KShs.'000	**Bank KShs.'000**
Overdrafts	4,432,955	4,432,955
Loans	5,547,492	5,491,360
Staff loans	289,493	289,493
	10,269,940	10,213,808
Less: Expected Credit Loss	(1,438,290)	(1,382,158)
	8,831,650	**8,831,650**
Maturing within 1 year	3,996,489	3,996,489
Between 1 and 3 years	613,700	613,700
Over 3 years	4,221,461	4,221,461
	8,831,650	**8,831,650**

The weighted average effective interest rate on loans and advances to customers at 31 December 2021 was 6.99% (2020: 6.4%).

Impairment losses on loans and advances charged to profit or loss

Group	**2021 KShs.'000**	**2020 KShs.'000**
Provisions during the year	42,003	95,989
Recovered during the year	(134,994)	(65,184)
Direct write off	454	352
	(92,537)	**31,137**
Bank		
Provisions during the year	41,870	95,747
Recovered during the year	(134,994)	(65,134)
Direct write off	454	166
	(92,670)	**30,779**

20. Financial assets at fair value through other comprehensive income

Group and Bank

Unquoted shares measured at fair value through other comprehensive income - refer to note 13.	**2021 KShs.'000**	**2020 KShs.'000**
Kenya Hotel Properties Plc		
2,258,017 ordinary shares of Ksh 20 each		
At 1 January	669,245	825,413
Revaluation loss on equity investment	(54,733)	(156,168)
	614,512	**669,245**

Notes to the financial statements (Continued)

20. Financial assets at fair value (continued) through other comprehensive income (Continued)

	2021 KShs.'000	2020 KShs.'000
Chemelil Sugar Company Limited 150,000 ordinary shares of Kshs. 20 each	3,000	3,000
Pan African Paper Mills Limited 104,000 ordinary shares at Kshs. 20	2,080	2,080
Kenya United Steel Company Limited 180,000 ordinary shares of Kshs. 5 each	900	900
East African Sugar Industries Limited 100,000 ordinary shares of Kshs. 20 each	2,000	2,000
	7,980	**7,980**
Impairment allowance	(7,980)	(7,980)
Net carrying amount of unquoted shares (impaired)	-	-
Net carrying amount of equity investments	**614,512**	**669,245**

21. Investment in subsidiary

Bank	2021 KShs.'000	2020 KShs.'000
Shares at cost:		
Small Enterprises Finance Company Limited (SEFCO)	32,048	32,048

SEFCO is a wholly owned subsidiary of the bank. The subsidiary company is incorporated in Kenya. The subsidiary has the same accounting period as the parent.

22. Investment in Associates

Bank	2021 KShs.'000	2020 KShs.'000
Shares at cost:		
Freshpick Processors (EPZ) Limited	268,490	-

The Bank owns 43% of Freshpick Processors (EPZ) Limited. The company made a capital call but the Bank has no plans to participate in the capital call. This will lead to the Bank's ownership being diluted to 34%.

23. Tax (payable)/recoverable

	2021		2020	
	Group KShs.'000	Bank KShs.'000	Group KShs.'000	Bank KShs.'000
As at 1 January	29,927	27,119	30,057	27,119
Tax expense (Note 12)	(33,334)	(32,783)	(440)	-
Tax paid	309	-	310	-
	(3,098)	**(5,664)**	**29,927**	**27,119**

Notes to the financial statements (Continued)

24. Other assets

	2021 Group KShs.'000	2021 Bank KShs.'000	2020 Group KShs.'000	2020 Bank KShs.'000
Rent receivable	4,196	4,196	4,418	4,418
Uncleared effects	8,196	8,196	7,014	7,014
Prepayments	20,091	20,091	20,513	20,513
Due from ICDC	131,705	131,705	128,587	128,587
Other receivables	30,065	30,065	13,743	13,743
	194,253	**194,253**	**174,274**	**174,274**

25. Deferred income tax

Deferred income tax is calculated in full on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%). The movement on the deferred tax account is as follows:

2020	**Group KShs.'000**	**Bank KShs.'000**
At start of the year	101,841	101,690
Credit to profit or loss	1,729	1,699
Charged to other comprehensive income	7,808	7,808
	111,378	**111,197**
2021		
At start of the year	111,378	111,197
Charge to profit or loss (Note 12)	20,545	20,515
Charged to other comprehensive income	2,737	2,737
	134,660	**134,449**

The deferred income tax assets and liabilities, deferred tax credit/(charge) in the statement or profit or loss are attributable to the following items:

Group

2020	**At 1 January KShs.'000**	**(Charge)/ credit to profit or loss KShs.'000**	**At 31 December KShs.'000**
Deferred income tax liabilities			
Fair value gain on equity investments	(39,113)	7,808	(31,305)
Deferred income tax assets			
Property and equipment	8,454	4,690	13,144
Right of use assets	3,167	2,392	5,559
Portfolio impairment provisions on loans and advances	119,927	(3,342)	116,585
Tax loss	5,362	(2,859)	2,503
Other provisions	4,044	848	4,892
	140,954	1,729	142,683
	101,841	**9,537**	**111,378**

Notes to the financial statements (Continued)

25. Deferred income tax (Continued)

2021	**At 1 January KShs.'000**	**(Charge)/ credit to profit or loss KShs.'000**	**At 31 December KShs.'000**
Deferred income tax liabilities			
Fair value gain on equity investments	(31,305)	2,737	(28,568)
Deferred income tax assets			
Property and equipment	13,144	3,777	16,921
Right of use assets	5,559	3,540	9,099
Portfolio impairment provisions on loans and advances	116,585	16,943	133,528
Tax loss	2,503	(2,503)	-
Other provisions	4,892	(1,212)	3,680
	142,683	20,545	163,228
	111,378	**23,282**	**134,660**

Bank

2020			
Deferred income tax liabilities			
Fair value gain on equity investments	(39,113)	7808	(39,113)
Deferred income tax assets			
Property and equipment	8,454	4,690	13,144
Right of use assets	3,167	2,392	5,559
Portfolio impairment provisions on loans and advances	119,927	(3,342)	116,585
Tax loss	5,362	(2,859)	2,503
Other provisions	3,893	818	4,711
	140,803	1,699	142,502
	101,690	**9,507**	**111,197**

2021			
Deferred income tax liabilities			
Fair value gain on equity investments	(31,305)	2,737	(28,568)
Deferred income tax assets			
Property and equipment	13,144	3,777	16,921
Right of use assets	5,559	3,540	9,099
Portfolio impairment provisions on loans and advances	116,585	16,943	133,528
Tax loss	2,503	(2,503)	-
Other provisions	4,711	(1,242)	3,469
	142,502	20,515	163,017
	111,197	**23,252**	**134,449**

Notes to the financial statements (Continued)

26. Property and equipment

Group and Bank 2021	Right of Use Assets KShs.'000	Leasehold improvements KShs.'000	Furniture and equipment KShs.'000	Computers KShs.'000	Motor vehicles KShs.'000	Capital work in progress KShs.'000	Total KShs.'000
Cost							
At 1 January 2021	165,359	61,202	42,749	211,368	38,034	39,846	558,558
Additions	-	-	4,981	64,419	-	13,902	83,302
Capital Work in progress	-	-	-	14,699	-	(14,699)	-
Asset directly expensed	-	-	-	-	-	(2,929)	(2,929)
Disposals	-	-	-	(102)	-	-	(102)
At 31 December 2021	**165,359**	**61,202**	**47,730**	**290,384**	**38,034**	**36,120**	**638,829**
Depreciation							
At 1 January 2021	(29,006)	(59,554)	(33,006)	(100,724)	(38,034)	-	(260,324)
Charge for the year	(14,503)	(390)	(1,703)	(60,366)	-	-	(76,962)
Disposals				42			42
At 31 December 2021	**(43,509)**	**(59,944)**	**(34,709)**	**(161,048)**	**(38,034)**	-	**(337,244)**
Net book amount at 31 December	**121,850**	**1,258**	**13,021**	**129,336**	-	**36,120**	**301,585**

As at 31 December 2021, property and equipment includes right-of-use assets of KShs. 121,850,000 (2020: KShs. 136,353,000) related to leased branches and office premises (see Note 33).

Notes to the financial statements (Continued)

Group and Bank **2020**	**Right of Use Assets KShs.'000**	**Leasehold improvements KShs.'000**	**Furniture and equipment KShs.'000**	**Computers KShs.'000**	**Motor vehicles KShs.'000**	**Capital work in progress KShs.'000**	**Total KShs.'000**
Cost							
At 1 January 2020	165,359	60,614	35,453	201,919	38,034	3,739	505,118
Additions	-	588	7,296	9,449	-	36,107	53,440
At 31 December 2020	**165,359**	**61,202**	**42,749**	**211,368**	**38,034**	**39,846**	**558,558**
Depreciation							
At 1 January 2020	(14,503)	(59,127)	(31,794)	(46,077)	(38,034)	-	(189,535)
Charge for the year	(14,503)	(427)	(1,212)	(54,647)	-	-	(70,789)
At 31 December 2020	(29,006)	(59,554)	(33,006)	(100,724)	(38,034)	-	(260,324)
Net book amount at 31 December	**136,353**	**1,648**	**9,743**	**110,644**	-	**39,846**	**298,234**

Notes to the financial statements (Continued)

27. Deposits and balances due to banking institutions

Group and Bank	2021 KShs.'000	2020 KShs.'000
Payable within 90 days	1,672,232	1,900,483
Payable between 3 months and one year	-	177,052
	1,672,232	**2,077,535**

The weighted average effective interest rate on deposits from other banks at 31 December 2021 was 2.66% (2020 – 1.24%).

28. Customer deposits

	2021		2020	
	Group KShs.'000	Bank KShs.'000	Group KShs.'000	Bank KShs.'000
From government and parastatals	479,782	479,782	473,013	473,013
From private sector and individuals	6,756,529	6,785,294	5,701,952	5,728,934
	7,236,311	**7,265,076**	**6,174,965**	**6,201,947**

Included in the Bank customer's deposits is Ksh 28,765,000 (2020 – Ksh 26,982,000) due to the subsidiary company. Interest paid on these deposits during the year amounted to Ksh 561,000 (2020: Ksh 560,000).

The weighted average effective interest rate on customer deposits at 31 December 2021 was 8.81% (2020 – 8.80%).

29. Borrowings

Group and Bank	2021 KShs.'000	2020 KShs.'000
European Investment Bank	21,163	21,163
Central Bank of Kenya	3,331,681	3,833,194
Industrial and Commercial Development Corporation (ICDC)	538,125	512,603
China Development Bank	157,674	305,573
	4,048,643	**4,672,533**

Group and Bank

Maturities

Less than one year	3,609,076	3,833,194
Between one and five years	220,710	818,176
Over 5 years	218,857	21,163
	4,048,643	**4,672,533**

Notes to the financial statements (Continued)

29. Borrowings (Continued)

The weighted average effective interest rate on loan capital at 31 December 2021 was 6.50% (2020: 6.42%).

Loan terms

- The loan from China Development Bank was disbursed in 2008 and 2009 and is to be repaid over a period of 15 years. The loan matures in 2022. The loan is payable half yearly and interest is charged at 6 months LIBOR plus margin of 0.8%.
- Borrowings from the Central Bank of Kenya comprise of short term borrowings of up to 3 months at an average interest rate of 9% p.a.

30. Other liabilities

	2021		2020	
	Group KShs.'000	**Bank KShs.'000**	**Group KShs.'000**	**Bank KShs.'000**
Bills payable	6,609	6,609	7,446	7,446
Rent deposit	18,618	18,618	18,618	18,618
Deutsche Investitions-und EntwcklungsgesellschaftmbH (DEG) retained funds	138,606	138,606	135,867	135,867
Payable to Government of Kenya	65,281	65,281	65,281	65,281
Provisions and accruals	53,890	53,890	49,025	49,025
Other liabilities	39,443	37,990	16,396	15,284
	322,447	**320,994**	**292,633**	**291,521**

31. Share capital

	2021 KShs.'000	2020 KShs.'000
Authorised, issued and fully paid 1 January and 31 December		
52,125,000 ordinary shares of KShs 20 each	1,042,500	1,042,500
	1,042,500	**1,042,500**

Total number of shares in issue 52,125,000 (2020 – 52,125,000).

All ordinary shares rank equally with regard to the Banks's residual assets. The holders of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to one vote per share at the general meeting of the company.

Notes to the financial statements (Continued)

32. Cash and cash equivalents

	2021 KShs.'000	2020 KShs.'000
Group and Bank		
Cash in hand (Note 16)	86,676	88,319
Cash at Central Bank of Kenya (Note 16)	91,850	346,346
Deposits and balances due from banks (Note 18)	2,352,932	2,228,733
Deposits and balances due to banks (Note 26)	(1,672,232)	(1,900,483)
	859,226	**762,915**

33. Leases

The Bank leases a number of premises for head office and the branches. The leases typically run for an initial period of between five and ten years with an option to renew the lease at the expiry of the lease.

Previously, these leases were classified as operating leases under IAS 17. The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term

Information about leases for which the Bank is a lessee is presented below.

(a) Right-of-use assets

Right-of-use assets relate to leased head office and branch office premises that are presented within property and equipment under Note 25

	2021 KShs.'000	2020 KShs.'000
At 1 January	136,353	150,856
Depreciation charge for the year	(14,503)	(14,503)
At 31 December	**121,850**	**136,353**

As at 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows

Notes to the financial statements (Continued)

33. Leases (Continued)

(b) Lease liabilities

The movement in lease liabilities during the year is as follows:

	2021 KShs.'000	2020 KShs.'000
At 1 January	156,018	183,146
Lease interest charge	19,032	19,390
Interest paid	(17,260)	(38,279)
Lease rental payment	(4,474)	(8,239)
At 31 December	**153,316**	**156,018**

(c) Amount recognized in profit or loss

	2021 KShs.'000	2020 KShs.'000
Finance cost on lease liabilities	19,302	19,390
At 31 December	**19,302**	**19,390**

(d) Amount recognized in the statement of cash flows

	2021 KShs.'000	2020 KShs.'000
Total cash outflow for leases	21,734	46,518

34. Contingencies

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. At 31 December 2021, interest rates on loans and overdrafts ranged from 3.00% to 13.00% (2020 – 3.00% to 13.00%). The contractual amounts of commitments are set out below:

(a) Commitments to extend credit with respect to:

	2021 KShs.'000	2020 KShs.'000
Undrawn loans	344,890	234,310
Undrawn overdraft facilities	25,403	12,000
Unutilised guarantees and letters of credit	338,362	8,406
	708,655	**254,716**

At 31 December 2021, interest rate on facilities subject to commitments ranged from 3.00% 13.00% (2020 – 3.00% - 13.00%).

Notes to the financial statements (Continued)

34. Contingencies (Continued)

(b) Commitments with respect to outstanding off-balance items

	2021 KShs.'000	2020 KShs.'000
Guarantees	697,559	801,086
Acceptances	53,855	11,851
Letters of credit	953,511	153,333
Undelivered spots	92	92
	1,705,017	**966,362**

(c) Nature of contingent liabilities

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

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

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

(d) Litigations against Small Enterprises Finance Company Limited (SEFCO)

Litigations against the subsidiary company, SEFCO, arising from normal cause of business have been lodged by some customers. The likely outcome of these cases cannot be objectively determined as at the date of signing of these financial statements. However, the Directors do not anticipate that any liability will arise from these suits.

35. Related party transactions

(a) Loans and advances to employees

	2021 KShs.'000	2020 KShs.'000
At 1 January	292,957	288,228
Advances in the year	41,557	53,664
Repayments in the year	(45,021)	(48,935)
At 31 December	**289,493**	**292,957**

Interest earned on staff loans during the year amounted to Ksh 13,672,658 (2020: Ksh 18,936,207).

Notes to the financial statements (Continued)

35. Related party transactions (Continued)

(b) Loans and advances to directors and their associates

The Group has entered into transactions with its directors and their associates as follows:

	2021 KShs.'000	2020 KShs.'000
Gross amount at 1 January	764,575	707,526
Interest charged	9,778	9,778
Revaluation	47,271	47,271
Net amount at 31 December	**764,575**	**764,575**

(c) Related party deposits

Included in deposits is Ksh 26,765,000 (2020 – Ksh 26,982,000) due to a subsidiary company. Interest paid on these deposits during the year amounted to Ksh 561,000 (2020 – Ksh 560,000).

(d) Due from Industrial and Commercial Development Corporation (ICDC)

Included in other assets is outstanding balance of payment from the sale of Finance house due from ICDC amounting to Ksh 131,978,988 (2020: Ksh 128,587,000).

(e) Key management compensation

Compensation to senior management for the year ended 31 December 2021 amounted to Ksh 76,062,709 (2020 – Ksh 81,965,604).

(f) Directors remuneration

	2021 KShs.'000	2020 KShs.'000
Fees for services as a director	1,900	1,900
Other emoluments	18,915	15,708
	20,815	**17,608**

36. Financial assets that may be repledged or resold by counterparties

As at 31 December 2021, Government securities amounting to Ksh 3,351.0 million (2020 – Ksh 3,856.0 million) were pledged as security against the facility from the Central Bank of Kenya. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

Notes to the financial statements (Continued)

37. Reserves

(a) Statutory reserves

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess loan provisions as computed in accordance with Central Bank of Kenya's prudential guidelines over the impairment arrived at in accordance with International Financial Reporting Standards.

(b) Other reserves

Other reserves comprise of:

(i) Ksh 281,000 of interest reserve established under a lending agreement between the bank and Industrial & Commercial Development Corporation (ICDC). Under the agreement, part of the interest payable on the loan capital balance was retained as interest reserve and is available for furtherance of the bank's business. The interest reserve is not available for distribution.

(ii) Ksh 594,785,000 (2020: Ksh 594,785,000) revaluation reserves on the equity investment in Kenya Hotel Properties Plc net of related tax.

38. Comparative figures

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