Kenya Bank Plc
Illustrative annual report and financial statements
For the year ended 31 December 2021

INTRODUCTION

This publication provides an illustrative set of financial statements prepared in accordance with International Financial Reporting Standards and the reporting requirements of the Kenyan Companies Act, 2015 for accounting periods beginning on or after 1st January 2021 for a fictitious listed Kenyan Bank with subsidiaries.

The presentation format in the illustrative financial statements is not the only acceptable form of presentation. The form and content of a reporting entity's financial statements are the responsibility of the entity's management, and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in International Financial Reporting Standards.

These illustrative financial statements are not a substitute for reading the Standards themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by International Financial Reporting Standards. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Financial Reporting Standards.

The specimen does not cover the following standards:

- IAS 2 Inventories
- IAS 8 Accounting policies, changes in accounting estimates and errors
- IAS 20 Accounting for government grants and disclosures of government assistance
- IAS 26 Accounting and reporting by retirement benefits plans
- IAS 28 Investments in associates and joint ventures
- IAS 29 Financial reporting in hyperinflationary economies.
- IAS 34 Interim financial reporting
- IAS 41 Agriculture
- IAS 40 Investment property
- IFRS 1 First time adoption of international financial reporting standards
- IFRS 2 Share-based payment
- IFRS 3 Business combinations
- IFRS 4 Insurance contracts
- IFRS 5 Non- current assets held for sale and discontinued operations.
- IFRS 6 Exploration for and evaluation for mineral resources
- IFRS 11 Joint arrangements
- IFRS 14 Regulatory Deferral Accounts
- IFRS 17 Insurance Contracts (not yet effective)

Each item in the illustrative financial statements is referenced (on the left) to the applicable requirements of IFRS and the Kenyan Companies Act, 2015. The following reference format has been used in this document:

- *IAS 1.120(a): refers to International Accounting Standard 1, paragraph 120(a)*
- *IFRS 7.21: refers to International Financial Reporting Standard 7, paragraph 21*
- *CAs653: refers to the reporting requirements in section 653 of the Companies Act, 2015*
- *BP: refers to best reporting practice adopted in Kenya*
- *DV: disclosure is voluntary*

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*** Not illustrated – would need to be tailored to describe individual circumstances***

CAs653 The directors submit their report together with the audited financial statements for the year ended 31 December 2021

CAs654(1) **Principal activities**

IAS 1.138(b) The principal activity of the Company is the provision of retail and corporate banking services.

The company's subsidiaries provide insurance agency and property management services

Recommended dividend

CAs654(3)The directors recommend the approval of a dividend of KShs .... (2020: KShs ....). ***[Or]***
The directors do not recommend the declaration of a dividend for the year.

Business review

CAs655(3) ***[This section shall include: (a) a fair review of the company's business; and (b) a description of the principal risks and uncertainties facing the company. It should be a balanced and comprehensive analysis of the development and performance of the business of the company during the company's financial year and the financial position of the company at the end of the year, consistent with the size and complexity of the business.]***

CAs655(6) ***[The review should include (to the extent necessary for an understanding of the development, performance or position of the company's business): (a) an analysis using financial key performance indicators; (b) if appropriate, an analysis using other key performance indicators (including information relating to environmental matters and employee matters); and (c) references to, and additional explanations of, amounts included in the company's annual financial statements.]***

Directors

CAs654(1) The directors who held office during the year and to the date of this report are as follows:

xxxxx
xxxxx
xxxxxx

Statement as to disclosure to the Company's auditor

CAs657(2) With respect to each director at the time this report was approved:

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

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

CAs725 **Terms of appointment of the auditor**

[Name of audit firm] continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs xxx has been charged to profit or loss in the year.

By order of the board

Company Secretary

Nairobi

... 2022

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2021

The Chairperson of the Board remuneration committee is required to present a statement of the directors' remuneration covering the matters set out below.

Information not subject to audit

1) *The company's remuneration policy and strategy*

- *overall policy and strategy for remuneration of directors*
- *terms of service for the directors, including notice period and termination payments under the contract*
- *nature and elements of the directors' remuneration, including performance terms and conditions*
- *performance conditions for entitlement to any share option arrangements or longterm incentive schemes*
- *methods used in assessing the performance conditions*
- *a description of, and an explanation for, any significant amendment proposed to be made to the terms and conditions of any entitlement of director to share options or under a longterm incentive scheme*
- *an explanation why an entitlement of a director to share options, or under a longterm incentive scheme, is not subject to performance conditions*

2) *Commentary on significant changes to director's remuneration*

- *the major decisions on directors' remuneration;*
- *any substantial changes relating to directors' remuneration made during the year; and*
- *the context in which the change above occurred, and decisions taken thereto*

3) *Statement of voting on the directors' remuneration report at the previous AGM*

- *in respect of a resolution to approve the director's remuneration report, the percentage of votes cast for and against and the number of votes withheld;*
- *in respect of a resolution to approve the director's remuneration policy, the percentage of votes cast for and against and the number of votes withheld; and*
- *in respect of the last general meeting at which a resolution of the following kind was moved by the company.*
- *Where there was a significant percentage of votes against either resolution under (a) or (b), a summary of the reasons for those votes, as far as known to the directors, and any actions taken by the directors in response to those concerns.*

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2021

Information subject to audit

The following table shows the remuneration for the Executive Directors, Chairman and Non-Executive directors in respect of qualifying services for the year ended 31 December 2021 together with the comparative figures for 2020. The aggregate directors' emoluments are shown on page XX.

	Salary	**Fees**	**Bonuses**	**Allowances**	**Loss of office**	**Estimated value for non-cash benefits****	**Total**
Year ended 31 December 2020	**KShs 000**	**KShs 000**	**KShs 000**	**KShs 000**	**KShs 000**	**KShs 000**	**KShs 000**
Director 1 – Executive	XX	XX	XX	XX	XX	XX	XX
Director 2 - Executive	XX	XX	XX	XX	XX	XX	XX
Director 3 - Chairman	-	-	XX	XX	XX	XX	XX
Director 4	-	-	XX	XX	XX	XX	XX
							XX
							XX
							XX
	XX	XX	XX	XX	XX	XX	XX
Year ended 31 December 2021							
Director 1 - Executive	XX		XX	XX	XX	XX	XX
Director 2 - Executive	XX		XX	XX	XX	XX	XX
Director 3 - Chairman	-		XX	XX	XX	XX	XX
Director 4	-		XX	XX	XX	XX	XX
							XX
							XX
							XX
	XX		XX	XX	XX	XX	XX

***the directors' report shall state the nature of any element of a remuneration package which is not cash*

Share option scheme

	2021 KShs 000	2020 KShs 000
Director 1 – Executive	XX	XX
Director 2 – Executive	XX	XX
Director 3 – Chairman	-	XX
Director 4	-	XX
Director 5	-	XX
Director 6	-	XX
Director 7	-	XX
	XX	XX

[The following share option information should be disclosed and shown as audited

a) *The number of shares subject to a share option*
   (i) *At the beginning of the relevant financial year or if later, the date the director was appointed; and*
   (ii) *At the end of the relevant financial year of if earlier, the date the director ceased to be one;*
b) *The share options –*
   (i) *Awarded;*
   (ii) *Exercised;*
   (iii) *Unexercised and have expired; and*
   (iv) *Whose terms and conditions have been varied; in that relevant year/*
c) *The unexpired share option at any time in the relevant financial year including*
   (i) *The price paid for the award;*
   (ii) *The date from which the option may be exercised; and*
   (iii) *The date on which the option expires*
d) *A description of any variation made in the relevant financial year in relation to the terms and conditions of the share option;*
e) *A summary of any performance criteria upon which the award or exercise of a share option is conditional, including a description of any variation made in such performance criteria during the year;*
f) *The market price of the share, at the time which each share option is exercised during the relevant financial year and*
g) *For each unexpired share option at the end of the financial year, -*
   (i) *The market price; and*
   (ii) *The highest and lowest market prices during that year, of each share that is subject to the option]*

Kenya Bank Plc
Directors' remuneration report
For the year ended 31 December 2021

Long term incentives

	2021	2020
	KShs 000	KShs 000
Director 1 – Executive	XX	XX
Director 2 – Executive	XX	XX
Director 3 – Chairman	-	XX
Director 4	-	XX
Director 5	-	XX
Director 6	-	XX
Director 7	-	XX
	XX	XX

[The following information on long term incentive schemes are to be provided and shown as audited:

a) details of the scheme interest that the director has at the beginning of the relevant financial year or if later on the date of appointment as a director of the company;
b) details of the scheme interests awarded to the director during the year
c) the details of the scheme interest that the director has at the end of the financial year or if earlier on the cessation of the director of the company
d) for each scheme interest the following information should be disclosed
  i. the end of the period over which the qualifying conditions for that interest have to be fulfilled
  ii. a description of any variation made in the terms and conditions of the scheme interests during the financial year
e) for each scheme that has vested in the relevant financial year
  i. the relevant details of shares;
  ii. the amount of money; and
  iii. the value of other assets that have become receivable in respect of the interest]

Pension related benefits

	2021	2020
	KShs 000	KShs 000
Director 1 – Executive	XX	XX
Director 2 – Executive	XX	XX
Director 3 – Chairman	-	XX
Director 4	-	XX
Director 5	-	XX
Director 6	-	XX
Director 7	-	XX
Director 8	-	XX
	XX	XX

*[*The directors remuneration report shall contain, for a director of the company who has served during the financial year and has rights under a pension scheme that is a defined benefit scheme the following information on their pension-*

a) Provide details of the pension arrangement and any changes to those arrangements during the year
b) Provide details on the management of the assets and financial affairs of the pension scheme]

Compensation for past directors

[The directors' remuneration report shall contain details of any significant award, made in the relevant financial year to any person who was not a director of the company at the time the award was made but had previously been a director of the Company.

The details of the award shall include the compensation in respect of loss of office and pensions but excluding any sums which have already been shown in the detailed disclosures above]

In XX XX 2021, the Company agreed to make a one-off payment to *[Name of director]* (a former Non-Executive Director of the Company from 200X – 2021) of KShsXXX. This payment was made in respect of service as the Group's nominee director of XX Limited (an associate undertaking of the Group) which position he vacated for personal reasons in XX 2021. *[and/or]*

The Company did not make *[(1) any other payments of money or other assets to former Directors; or (2) any payments to Directors for loss of office during the year ended 30 June 2021]. [Tailor as appropriate].*

Sums paid to third parties in respect of a directors' services – audited

[The directors' remuneration report shall contain, in respect of each person who served as a director of the company at any time during the financial year, the aggregate amount of consideration paid to or receivable by third parties for making available the services of the person –

a) as a director of the company, or
b) while a director of the company –
  i. as a director of any of its subsidiary undertakings, or
  ii. as a director of any other undertaking of which he was a director by virtue of the company's nomination (direct or indirect), or
  iii. dealt with the management of the affairs of the company or any such other undertaking]

The following directors are considered third party and served the Company in capacity as directors during the financial year:

	2021 KShs'000	2020 KShs'000
XX	XX	XX
XX	XX	XX
	XX	XX

On behalf of the Board

____________________ *(signature)*

[Name of Director]

Chairman, Remuneration Committee

______________________2021

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) selecting suitable accounting policies and applying them consistently; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

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

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

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

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Director	**Director**

ISA 700
CA 727

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KENYA BANK Plc

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of Kenya Bank Plc ("the Group and Company/Bank"), which comprise the consolidated and bank balance sheet as at 31 December 2021, the consolidated and bank statement of profit or loss and other comprehensive income, consolidated and bank statement of changes in equity, and consolidated and bank statement of cash flows for the year then ended, and notes, including a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and company as at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2015.

Basis for opinion

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

ISA 701

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

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

Key audit matters

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

ISA 720

Key audit matter	*How our audit addressed the matter*
[Title of KAM 1] *[Description]*	*[Description]*
[Title of KAM 2] *[Description]*	*[Description]*

CA 728

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. *[Amend as appropriate depending on whether other information was received before or after the report signing date – refer to ISA 720 illustrative examples]*

CA 636

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of 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 misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.

CA 728
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely

CA 730 responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the key

CA 729 audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Companies Act, 2015

CA 735 ***Report of the directors***

In our opinion the information given in the report of the directors on pages 2 is consistent with the financial statements.

[Where the information in the directors' report is not consistent with the financial statements, the auditor should provide the details of the inconsistencies]

[If, in reporting on the financial statements, the auditor forms an opinion that:

- *The company has not kept adequate accounting records or returns adequate for the audit have not been received from the branches not visited; or*
- *The financial statements are not in agreement with the company's accounting records*

The auditor shall state that in their report.]

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on page 3 to 7 has been properly prepared in accordance with the Companies Act, 2015.

[Signature of the engagement partner]

CPA [Partner Name], Practising certificate No. XXX
Engagement partner responsible for the independent audit
For and on behalf of ABC Certified Public Accountants
Nairobi **----------------------------------2021**

Note: The auditor's report should be signed by the engagement partner, in his or her own name, for and on behalf of the firm.

Consolidated statement of profit or loss

For the year ended 31 December

Reference		Note	2021	2020
IAS 1.10(b), (10A)				
IAS 1.51(c),(e)				
IAS 1.113			KShs'millions	KShs'million
IFRS 7.20(b)	Interest income	8		
IFRS 7.20(b)	Interest expense	8		
	Net interest income			
IFRS 7.20(c)	Fee and commission income	9		
IFRS 7.20(c)	Fee and commission expense	9		
	Net fee and commission income			
IFRS 7.20(a)	Net trading gains	10		
IFRS 7.20(a)	Net gains from financial instruments carried at fair value through profit or loss	11		
IFRS 9-5.5.1	Allowance for expected credit losses	21		
IAS 1.82(aa)	Net gains/(losses) on derecognition of financial assets measured at amortised cost			
IFRS 9-B5.7.1A	Net gain on disposal of debt instruments measured at fair value through other comprehensive income			
IFRS 7.20(a)	Other operating income	12		
	Net operating income			
IAS 1.99	Staff costs	13		
IFRS 16-53(a)	Amortisation of right-of-use assets	24		
IAS 1.99	Depreciation of property, plant, and equipment	23		
IAS 1.99, 38.118(d)	Amortisation of intangible assets	25		
IAS 1.99	Other operating expenses	14		
IAS 1.85	**Profit before income tax**			
IAS 1.82(d), 12.77	Income tax expense	15		
IAS 1.81 A(a)	**Profit for the year**			
	Profit attributable to:			
IAS 1.81 B(a)(ii)	Equity holders of the Bank			
IAS 1.81 B(a)(i)	Non-controlling interest			
	Earnings per share (KShs per share):	16		
	Basic and diluted			

Consolidated statement of comprehensive income

Reference	For the year ended 31 December	Notes	2021	2020
			KShs'millions	KShs'millions
IAS 1.10A				
IAS 1.81A(a)	**Profit for the year**			
	Other comprehensive income, net of income tax			
IAS 1.82A	***Items that will not be reclassified to profit or loss***			
IFRS 9-B5.7.1	Net gains/(losses) on investments in equity instruments measured at FVOCI			
IAS19.93B	Remeasurements of post-employment benefit obligations	33		
IAS 1.91	Income tax expense relating to the above items			
IAS 1.82A	***Items that may be subsequently reclassified to profit or loss when specific conditions are met***			
IFRS 9-B5.7.1A	Net gains/(losses) on investments in debt instruments measured at FVOCI			
IFRS 9-B5.7.1A	Reclassification to profit or loss – gain on disposal of debt instruments measured at FVOCI			
IAS 21.52(b)	Currency translation of foreign operations			
IAS 1.91	Income tax expense relating to the above items			
	Other comprehensive income for the year, net of income tax			
	Total comprehensive income for the year			
	Attributable to:			
IAS 1.81 B(b)(ii)	Equity holders of the Bank			
IAS 1.81(b)(i)	Non-controlling interest			
	Total comprehensive income for the year			

[Alternatively, each component of other comprehensive income can be presented net of tax, with the tax relating to each component disclosed in the notes]

Reference	**Bank statement of profit or loss**			
IAS 1.10(b), (10A)	**For the year ended 31 December**			
IAS 1.51(c),(e)		***Note***	**2021**	**2020**
IAS 1.113			KShs'millions	KShs'million
IFRS 7.20(b)	Interest income	8		
IFRS 7.20(b)	Interest expense	8		
	Net interest income			
IFRS 7.20(c)	Fee and commission income	9		
IFRS 7.20(c)	Fee and commission expense	9		
	Net fee and commission income			
IFRS 7.20(a)	Net trading gains	11		
IFRS 7.20(a)	Net gains from financial instruments carried at fair value through profit or loss	10		
IFRS 9-5.5.1	Allowance for expected credit losses	21		
IAS 1.82(aa)	Net gains/(losses) on derecognition of financial assets measured at amortised cost			
IFRS 9-B5.7.1A	Net gains from disposal of debt instruments measured at fair value through other comprehensive income			
IFRS 7.20(a)	Other operating income	12		
	Net operating income			
IAS 1.99	Personnel costs	13		
IAS 16-53(a)	Amortisation of right-of-use assets	24		
IAS 1.99	Depreciation of property, plant, and equipment	23		
IAS 1.99, 38.118(d)	Amortisation of intangible assets	25		
IAS 1.99	Other operating expenses	14		
IAS 1.85	**Profit before income tax**			
IAS 1.82(d), 12.77	Income tax expense	16		
IAS 1.81 A(a)	**Profit for the year**			

Reference	**Bank statement of comprehensive income**			
IAS 1.10A	**For the year ended 31 December**	***Notes***	**2021**	**2020**
			KShs'millions	KShs'millions
IAS 1.81A(a)	**Profit for the year**			
	Other comprehensive income, net of income tax			
IAS 1.82A	***Items that will not be reclassified to profit or loss***			
IFRS 9-B5.7.1	Net gains/(losses) on investments in equity instruments measured at FVOCI			
IAS19.93B	Remeasurements of post-employment benefit obligations	33		
IAS 1.91	Income tax expense relating to the above items			
IAS 1.82A	***Items that may be subsequently reclassified to profit or loss when specific conditions are met***			
IFRS 9-B5.7.1A	Net gains/(losses) on investments in debt instruments measured at FVOCI			
IFRS 9-B5.7.1A	Reclassification to profit or loss – gain on disposal of debt instruments measured at FVOCI			
IAS 1.91	Income tax expense relating to the above items			
	Other comprehensive income for the year, net of income tax			
	Total comprehensive income for the year			

[Alternatively, each component of other comprehensive income can be presented net of tax, with the tax relating to each component disclosed in the notes]

Reference

Consolidated balance sheet

At 31 December

Reference		*Note*	2021	2020
38, 113				
	Assets		KShs'millions	KShs'millions
IAS 1-54(i)	Cash and bank balances	18		
IFRS 7-8(a)(ii)	Financial assets at fair value through profit or loss	19		
IAS 1-55	Investment securities	20		
IFRS 7-8(f)	Loans and advances to banks			
IFRS 7-8(f)	Loans and advances to customers	21		
IAS 1-55	Other assets and prepayments	22		
IAS 1-54(a)	Property and equipment	23		
IFRS16(47)(a)	Right-of-use assets	24		
IAS 1-54(c)	Intangible assets	25		
IAS 1-54 (o))	Deferred income tax	26		
	Total assets			
	Liabilities			
IFRS 7-8(g)	Deposits from banks	27		
IFRS 7-8(g)	Deposits from customers	28		
IFRS 7-8(e)(ii)	Financial liabilities at fair value through profit of loss	19		
IAS 1-55	Other liabilities and accrued expenses	29		
IAS 1-54(m)	Borrowings	30		
IFRS 16(47)(b)	Lease liabilities	31		
IAS 1-54(l)	Provisions for liabilities	32		
IAS 1-54(n)	Current income tax			
IAS 1-78(d)	Retirement benefits obligations	33		
	Total liabilities			
IAS 1-54(r)	**Equity**			
IAS 1-78 (e)	Share capital	34		
IAS 1-55	Share premium	34		
IAS 1-55	Regulatory reserve	35		
IAS 1-55	Other reserves	36		
IAS 1-55	Retained earnings			
IAS 1-54(r)	Total equity attributable to equity holders of the Bank			
IAS 1-54(q)	Non-controlling interest			
	Total equity			
	Total liabilities and equity			

CA 652 The financial statements on pages 12 to 92 were approved for issue by the board of directors on __________ 2022 and were signed on its behalf by:

______________ ______________
Director Director

Reference	**Bank balance sheet** **At 31 December**			
38, 113		***Note***	**2021**	**2021**
	Assets		KShs'millions	KShs'millions
IAS 1-54(i)	Cash and bank balances	18		
IFRS 7-8(a)(ii)	Financial assets at fair value through profit or loss	19		
IAS 1-55	Investment securities	20		
IFRS 7-8(f)	Loans and advances to banks			
IFRS 7-8(f)	Loans and advances to customers	21		
IAS 1-55	Other assets and prepayments	22		
	Investment in subsidiaries	39		
IAS 1-54(a)	Property and equipment	23		
IFRS 16(47)(a)	Right-of-use assets	24		
IAS 1-54(c)	Intangible assets	25		
IAS 1-54 (o))	Deferred income tax	26		
	Total assets			
	Liabilities			
IFRS 7-8(g)	Deposits from banks	27		
IFRS 7-8(g)	Deposits from customers	28		
IFRS 7-8(e)(ii)	Financial liabilities at fair value through profit or loss	19		
IAS 1-55	Other liabilities and accrued expenses	29		
IAS 1-54(m)	Borrowings	30		
IFRS 16(47)(b)	Lease liabilities	31		
IAS 1-54(l)	Provisions for liabilities	32		
IAS 1-54(n)	Current income tax			
IAS 1-78(d)	Retirement benefits obligations	33		
	Total liabilities			
IAS 1-54(r)	**Equity**			
IAS 1-78 (e)	Share capital	34		
IAS 1-55	Share premium	34		
IAS 1-55	Regulatory reserve	35		
IAS 1-55	Other reserves	36		
IAS 1-55	Retained earnings			
	Total equity			
	Total liabilities and equity			

CA 652 The financial statements on pages 7 to 92 were approved for issue by the board of directors on __________ 2022 and were signed on its behalf by:

_______________ Director

_______________ Director

Reference	**Consolidated statement of changes in equity**								
	For the year ended 31 December								
	In millions of Kenya Shillings								
		Attributable to equity holders of the Bank							
		Share capital	**Share premium**	**Other reserves**	**Regulatory reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	Year ended 31 December 2020								
	At start of year								
	Total comprehensive income for the year								
IAS 1-106(d)(i)	Profit for the year								
IAS 1-106	Other comprehensive income, net of tax								
IAS 1-106(a)	Total comprehensive income for the year								
	Transfers in regulatory reserve								
IAS 1-106(d)(iii)	**Transactions with owners, recorded directly in equity**								
	Dividends to equity holders								
	Dividends to non-controlling interests								
	Issue of bonus shares								
	Total transactions with owners								
	At end of year								
	Year ended 31 December 2021								
	At start of year								
	Total comprehensive income for the year								
IAS 1-106(d)(i)	Profit for the year								
IAS 1-106(d)	Other comprehensive income, net of tax								
IAS 1-106(a)	Total comprehensive income for the year								
	Transfers in regulatory reserve								
IAS 1-106(d)(iii)	**Transactions with owners, recorded directly in equity**								
	Dividends to equity holders								
	Dividends to non-controlling interests								
	Proceeds from issue of shares								
	Total transactions with owners								
	At end of year								

Reference	**Bank statement of changes in equity** **For the year ended 31 December** *In millions of Kenya Shillings*						
	Year ended 31 December 2020	**Share capital**	**Share premium**	**Other reserves**	**Regulatory reserve**	**Retained earnings**	**Total**
	At start of year						
	Total comprehensive income for the year						
IAS 1-106(d)(i)	Profit for the year						
IAS 1-106(d)	Other comprehensive income, net of tax						
IAS 1-106(a)	Total comprehensive income for the year						
	Transfers in regulatory reserve						
IAS 1-106(d)(iii)	**Transactions with owners, recorded directly in equity**						
	Dividends to equity holders						
	Issue of bonus shares						
	Total transactions with owners						
	At end of year						
	Year ended 31 December 2021						
	At start of year						
	Total comprehensive income for the year						
IAS 1-106(d)(i)	Profit for the year						
IAS 1-106(d)(ii, 106A	Other comprehensive income, net of tax						
IAS 1-106(a)	Total comprehensive income for the year						
	Transfers in regulatory reserve						
IAS 1-106(d)(iii)	**Transactions with owners, recorded directly in equity**						
	Dividends to equity holders						
	Proceeds from shares issued						
	Total transactions with owners						
	At end of year						

Reference
IAS 1-10(d),38, 113

Consolidated statement of cash flows

For the year ended 31 December

Reference	*In millions of Kenya Shillings*	***Note***	**2021**	**2020**
IAS 7-18(b)	**Cash flows from operating activities**			
IAS 7-31,33	Interest income			
IFRS 7-31,33	Fee and commission income	10		
IAS 7-31,33	Interest paid	9		
	Foreign exchange income			
	Recoveries on loans previously written off			
	Cash payments to employees and suppliers			
IAS 7-35	Income tax paid			
	Cash flows from operating profits before changes in operating assets and liabilities.			
	Changes in operating assets and liabilities:			
	- trading assets			
	– loans and advances to banks			
	– loans and advances to customers			
	– other assets and prepayments			
○	– deposits from customers			
	– deposits from banks			
	– trading liabilities			
	– other liabilities and accrued expenses			
IAS 7-10	**Net Cash flows generated from operating activities**			
IAS 7-21	**Cash flows from investing activities**			
IAS 7-16(c)	Purchase of investment securities	20		
IAS 7-16(d)	Proceeds from sale of investment securities	20		
IAS 7-16(a)	Purchase of property and equipment	23		
	Payments for right-of-use assets	24		
IAS 7-16 (b)	Proceeds from the sale of property and equipment			
IAS 7-16(a)	Purchase of intangible assets	25		
	Net cash used in investing activities			
IAS 7-21	**Cash flows from financing activities**			
IFRS 7-17(a)	Proceeds from issue of shares	34		
IAS 7-17(c)	Proceeds from borrowings			
IAS 7-17(d)	Repayments of borrowings			
IFRS 16-50(a)	Payments of principal portion of the lease liabilities	31		
IAS 7-31, 34	Dividends paid to company's shareholders	17		
IAS 7-31, 34	Dividends paid to non-controlling interest			
	Net cash from financing activities			
	Net increase / (decrease) in cash and cash equivalents			
	Cash and cash equivalents at start of year	40		
IAS 7-28	Effect of exchange rate fluctuations on cash held			
	Cash and cash equivalents at 31 December	40		

Reference
IAS 1-10(d),38, 113

Bank statement of cash flows

For the year ended 31 December

Reference	*In millions of Kenya Shillings*	*Note*	2021	2020
IAS 7-18(b)	**Cash flows from operating activities**			
IAS 7-31,33	Interest income			
IFRS 7-31,33	Fee and commission income	10		
IAS 7-31,33	Interest paid	9		
	Foreign exchange income			
	Recoveries on loans previously written off			
	Cash payments to employees and suppliers			
IAS 7-31,33	Dividends received			
IAS 7-35	Income tax paid			
	Cash flows from operating profits before changes in operating assets and liabilities.			
	Changes in operating assets and liabilities:			
	- trading assets			
	– loans and advances to banks			
	– loans and advances to customers			
	– other assets and prepayments			
o	– deposits from customers			
	– deposits from banks			
	– trading liabilities			
	– other liabilities and accrued expenses			
IAS 7-10	**Net Cash flows generated from operating activities**			
IAS 7-21	**Cash flows from investing activities**			
IAS 7-16(c)	Purchase of investment securities	20		
IAS 7-16(d)	Proceeds from sale of investment securities	20		
IAS 7-16(a)	Purchase of property and equipment	23		
	Payments for right-of-use assets	24		
IAS 7-16 (b)	Proceeds from the sale of property and equipment			
IAS 7-16(a)	Purchase of intangible assets	24		
	Net cash used in investing activities			
IAS 7-21	**Cash flows from financing activities**			
IFRS 7-17(a)	Proceeds from issue of shares	32		
IAS 7-17(c)	Proceeds from borrowings			
IAS 7-17(d)	Repayments of borrowings			
IFRS 16-50(a)	Payments of principal portion of the lease liabilities	31		
IAS 7-31, 34	Dividends paid to company's shareholders	17		
IAS 7-31, 34	Dividends paid to non-controlling interest			
	Net cash from financing activities			
	Net increase / (decrease) in cash and cash equivalents			
	Cash and cash equivalents at start of year	40		
IAS 7-28	Effect of exchange rate fluctuations on cash held			
	Cash and cash equivalents at 31 December	40		

NOTES

1 General information

IAS 1.51 (a) (b))
IAS 1.138 b-(c)

Kenya Bank Plc (The "Bank") is a company domiciled in Kenya with subsidiaries operating in the East African region. The registered address of the company is [address]. The bank's shares are listed on the Nairobi Securities Exchange. The consolidated financial statements of the Bank comprise the operations of the Bank and its subsidiaries (together the "Group"). The Group primarily is involved in corporate and retail banking.

2 Summary of significant accounting policies

IAS1.112(a)
IAS1.117(b)

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

;2.1 Basis of preparation

IAS1.16

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

(a) Basis of measurement

IAS1.117(a)

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

IFRS13.9
IFRS13.61-67
IFRS13.72
IFRS13.76
IFRS13.81-86

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

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

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used 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).

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

(b) Use of estimates

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

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

IAS 8.28

New standards, amendments and interpretations adopted by the Group

[*This section should only disclose the new standards, amendments and interpretations that have had a significant effect on the financial statements of the entity]*.

IAS 8-30

New and revised standards and interpretations that have been issued but are not yet effective

The Group has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2021, and the directors do not plan to apply any of them until they become effective. The Appendix lists all such new or revised standards and interpretations with their effective dates and provides reasonably estimable information relevant to assessing the possible impact that application of them will have on the Group's financial statements in the period of initial application.

2	**Summary of significant accounting policies (continued)**

IAS 1- 119

2.2 Consolidation

(a) Subsidiaries

IFRS 10-7
IFRS 10-20
IFRS 10-25

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

IFRS 3-5
IFRS 3-37
IFRS 3-39
IFRS 3-18
IFRS 3-19

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

IFRS 3-53

Acquisition-related costs are expensed as incurred.

IFRS 3-42

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

IFRS 3-58

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

IFRS 3-32
IFRS 3-B63(a)
IAS 36-80

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the group's accounting policies.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(b) Changes in ownership interests

IFRS 10-23

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

IFRS 10-25
IFRS 10-B98
IFRS 10-B99

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

IAS 1-119

2.3 Foreign currency translation

(a) *Functional and presentation currency*

IAS 21-17
IAS 21-9,18
IAS 1-51(d)

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 the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the group's presentation currency.

(b) Transactions and balances

IAS 21- 21
IAS 21-28
IAS 21-32

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 for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss account 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".

IAS 21-30

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Group companies

IAS 21-39 The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

IAS 21-41

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in a separate reserve in equity. On foreign operations disposal, such exchange differences are recognised in profit or loss (reclassified) when the gain or loss on disposal is recognised.

IAS 21-48

2.4 Financial instruments

1p119

2.4.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

IFRS 9-App A The amortised cost is the amount at which the financial asset or financial liability 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, for financial assets, adjusted for any loss allowances.

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

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

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

IFRS 9-5.4.1

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

2 Summary of significant accounting policies (continued)

Initial recognition and measurement

IFRS 9-3.1.1
IFRS 9-3.1.2

Financial assets and financial liabilities 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 which the Group commits to purchase or sell the asset.

IFRS 9-5.1.1

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

IFRS 9-B5.1.2A

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. 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.
(b) 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.

Financial assets

(i) Classification and subsequent measurement

IFRS 9-4.1.1

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

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 and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

IFRS 9-5.1.1

(i) the Group's business model for managing the asset; and
(ii) 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 are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IFRS 9-4.1.2A

- 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 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 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" using the effective interest rate method.

IFRS 9-4.1.4

- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments 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 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.

IFRS 9-B4.1.2A, B4.1.2B

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

IFRS 9-B4.1.7A

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

IFRS 9-4.3.2,4.3.3

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

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

2 Summary of significant accounting polices (continued)

Equity Instruments

IAS 32R-11 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. Examples of equity instruments include basic ordinary shares.

IIFRS 9-5.7.2 The Group subsequently measures all equity investments at fair value through profit or loss, except where the entity's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit loss ("ECL") associated with *IFRS 9-5.5.17* its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether the new terms are substantially *IFRS 9-5.4.3* different to the original terms. The Group does this by considering, among others, the following factors:

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

If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IFRS 9-B5.5.25, B5.5.26

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.

IFRS 9-5.4.3

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 of credit-adjusted effective interest rate for POCI financial assets.

(iv) Derecognition other than on a modification

IIFRS 9-3.2.3

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.

IFRS 9-3.2.5

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as “pass through” transfers that result in derecognition if the Group:

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

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

Financial liabilities

(i) Classification and subsequent measurement

IFRS 9-4.2.1

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

IFRS 9-B5.7.16

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

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

(ii) Derecognition

IFRS 9-3.3.1 Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

IFRS 9-3.3.2, 3.3.3, B3.3.6 The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

IAS 32-42 Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.4.2 Financial guarantee contracts and loan commitments

IFRS 9, Appendix A Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of the debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

IFRS 9-4.2.1 Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

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

IFRS 9-2.3 Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

IFRS 7(B8E) For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

2.4.3 Derivative financial instrument

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency exchange rate risks, including currency forward exchange contracts, interest rate swaps and cross currency swaps.

IFRS 9-4.1.4 Derivatives are initially recognised at fair value on the date on which the derivative contract is entered and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition of gains or losses in the profit or loss will depend on the nature of the hedge relationship.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives embedded in the non-derivative host contracts are treated as separate derivatives when:

- their risks and economic characteristics are not closely related to those of the host contract;
- a separate instrument with the same terms would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value through profit or loss

IAS 1-119

2.5 Cash and cash equivalents

IFRS 7-45
IFRS 7-46

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

IAS 1-119

2.6 Property and equipment

IAS 16-15
IAS 16-30

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

IAS 16-12 Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

IAS 16-73(b)
IAS 16-50
IAS 16-73(c)

Freehold land is not depreciated. Depreciation of other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives.

16p51
36p59

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

IAS 16-71
IAS 16-68

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

IAS 1- 119

2.7 Intangible assets

IAS 38-57

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

IAS 38-66
IAS 38-68,71

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

IAS 38-97
IAS 38-118(a)(b)

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

IAS 38-4
IAS 38-118(a)(b)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

IAS 1-119

2.8 Impairment of non-financial assets

IAS 36-9
IAS 36- 10

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

IAS 1-119

2.9 Employee benefits

(a) Post-employment benefits obligation

IAS 19-27
IAS 19-25
IAS 19-7

IAS 19-120A(b)

The Bank operates various retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has both defined benefit and defined contribution plans.

A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2. Summary of significant accounting policies (continued)

A defined benefit plan is a retirement benefit plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

IAS 19-57, IAS 19-58, IAS 19-59, IAS 19-60, IAS 19-67, IAS 19-68, IAS 19-83

The liability recognised in the statement of the financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the Kenya shillings or the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In the event that there is no deep market in such bonds, the market rates on government bonds are used.

IAS 19-57(d)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income

IAS 19-103

Past-service costs are recognised immediately in profit or loss

IAS 19-51

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other post-employment obligations

IAS 19-155

The Bank provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

IAS 1-119

2.10 Provisions for liabilities

IAS 37-14, IAS 37-72, IAS 37-63

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

IAS 37-24

Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

IAS 37-45

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

IAS 1-119

2.11 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.

(a) Current income tax

IAS 12-58
IAS 12-61A

IAS 12-12
IAS 12-46

The current income tax charge is calculated based on 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 based on amounts expected to be paid to the tax authorities.

(b) Deferred income tax

IAS 12-24
IAS 12-15
IAS 12-47

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.

IAS 12-24
IAS 12-34
IAS 12-34

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.

IAS 1-119

2.12 Dividend payable

IAS 10-12

Dividends on ordinary shares are charged to equity in the period in which they are declared.

IAS 1-119

2.13 Leases

Leases under which the Group is the lessee

IFRS16-22

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Group recognises a right-of-use asset and a lease liability.

IFRS 16-26,27

IFRS 16-12

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable oayments that depend on an idnex or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implict in the lease. If that rate cannnot be readily determined, the group's incremental borrowing rate is used. For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

IFRS 16-24

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

IFRS 16-36

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

IFRS 16-35

All right-of-use assets are subsequently measured at cost less accumulated depreciatiom and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. Depreciation is calculated using the staright-line method to write-down the cost of each asset to its residual value over its estimated useful life. If the ownership of the underlying asset is expected to pass to the group at the end of the lease term, the estimated useful life would not exceed the lease term.

IFRS 16-6
IFRS 16-60

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset if of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above policy has been applied from 1st January 2021. Note 24 sets out the equivalent policy applied in the previous year and the impact of the change in the accounting policy.

Leases under which the Group is the lessor

IFRS 16 -62
IFRS 16 -81

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

2.14 Fees and commission income

IFRS 15-3
IFRS 15-114

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

IAS 1-119

2.15 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

NOTES (CONTINUED)

3. Critical accounting estimates and judgements

IAS 1-122
IAS 1-125
IAS 1-129

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

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

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

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

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

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

[The above disclosure should be tailored as appropriate]

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that the directors used a tightening of 20 basis points in the credit spread, the fair values would be estimated at KShs xxxx as compared to their reported fair value of KShs xxxx at 31 December 2021.

3. Critical accounting estimates and judgements

(c) Post-employment benefits obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used to differ by 10% from directors' estimates, the defined benefit obligation for pension benefits would be an estimated KShsXXX lower or KShsXXX higher.

NOTES (CONTINUED)

4. Financial risk management

The illustrative disclosures and notes should be replicated for both Group and company, where applicable.

IFRS 7-31

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations to each operating entity (Banks). The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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

Financial risk management is carried out by the treasury function under policies approved by the Board of Directors. The treasury function identifies, evaluates and hedges financial risks in close co-operation with the individual bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

4.1 Credit risk

IFRS7-33(a)

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

The Bank 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, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Group's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

IFRS 7-33(b)

4.1.1 Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, 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.

NOTES (CONTINUED)

4. Financial risk management (continued)

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Credit risk grading
The Group uses internal credit risk gradings that reflect its assessment of the probability of defaults of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, the level of collateral for retail exposures, and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for the considerations which may not be captured as part of the other data input into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail
After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Wholesale
For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Treasury
Foe debt securities in the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group's rating method comprises *XX* rating levels for instruments not in default (1 to XX) and ZZ default classes (XX to XX+ZZ). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of actually observed defaults.

NOTES (CONTINUED)

4. Financial risk management (continued)

[not mandatory] The Bank's internal ratings scale and mapping of external ratings as supplemented by the Bank's own assessment through the use of internal rating tools are as follows:

Rating	PD range as a percentage	Description of the grade
XX		Investment grade
XX		Standard monitoring
XX		Special monitoring
XX		Default

4.1.2 Expected Credit loss measurement

The group applies a "three-stage" model for impairment based on changes in credit quality as summarised below:

- A financial instrument that is not credit impaired at 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.
- 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 Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL 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)

The key judgements and assumptions adopted by the Group in addressing the requirements of the Standard are as follows:

IFRS 7-35F(a)

4.1.2.1 Significant increase in credit risk (SICR)

IFRS 7-35G(a)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria
[Describe the quantitative criteria that is applied by the Group to determine whether a financial instrument has experienced a significant increase in credit risk]

Qualitative criteria
For retail portfolio, if the borrower meets one or more of the following criteria:
- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last [XX] months

4. Financial risk management (continued)

For wholesale and treasury portfolios, if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors /loans

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Group. In relation to wholesale and treasury financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

IFRS 7-35(F)

<u>Backstop</u>
A backstop is applied, and the financial instrument is 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 2021.

IFRS 7-35F

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

<u>*Qualitative criteria*</u>
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

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

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

IFRS 7-B8A(b)

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

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.2.3 Measuring expected credit loss – inputs, assumptions and estimation techniques

IFRS 7-35G

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 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, 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).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and a credit grade. This is supported by a historical analysis.

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

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

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

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

4. Financial risk management (continued)

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

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

4.1.2.4 Forward-looking information incorporated in the ECL models
The assessment of SICR and the calculation of ECL both incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

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

As with any economic forecasts, the projections and likelihoods of occurrence are subject to 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 analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

IAS 1-125

The most significant period-end assumptions used for the ECL estimate as at 31 December 2021 are as follows:

[Provide an analysis of the key economic variable assumptions used in the calculation of the ECL, together with the weightings assigned to each economic scenario, at 1 January 2021 and 31 December 2021.

This disclosure should be adapted to consider the entities or Group's particular circumstances, for example to cover different geographies and/or different assumptions.]

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

Sensitivity analysis
The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolio
(i) *Unemployment rate*, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments; and
(ii) *House price index,* given the significant impact it has on mortgage collateral valuations

Wholesale portfolio
(i) *GDP,* given the significant impact on businesses' performance and collateral valuations
(ii) *Interest rate,* given its impact on businesses' likelihood of default

NOTES (CONTINUED)

4. Financial risk management (continued)

Set out below are the changes to the ECL at 31 December 2021 that would result from reasonably possible changes in these parameters from actual assumptions used in the Group's economic variable assumptions:

Retail portfolio

		Unemployment		
		[-X%] KShs'millions	No Change KShs'millions	[+X%] KShs'millions
House price index	[+X%]			
	No change			
	[-X%]			

Wholesale portfolio

		Interest rates		
		[-X%] KShs'millions	No Change KShs'millions	[+X%] KShs'millions
GDP	[+X%]			
	No change			
	[-X%]			

The key drivers of sensitivity disclosed above are purely illustrative and banks will need to analyse their own portfolios to determine which parameter's sensitivities are most relevant to users of the financial statements.

4.1.2.5 Grouping of instruments for losses measured on a collective basis

IFRS 7-35F(c)

For expected credit losses provisions modelled on a collective basis, a grouping of exposures is performed based on shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are as follows:

Retail – grouping for collective measurement

- Loan to value ratio band
- Credit rating band
- Product type (e.g. Residential/buy to let mortgage, overdraft, credit card)
- Repayment type
- Utilisation band

Wholesale – groupings for collective measurement

- Industry – external data sourced from study
- Collateral type
- Credit rating band
- Geographical region of risk exposure

The following exposures are assessed individually:

Retail:

- Stage 3 loans with current exposure above [X]
- Properties in repossession proceedings

Wholesale:

- Stage 3 facilities
- Stage 2 facilities with exposure above [X]

The appropriateness of groupings is monitored and reviewed on a periodic basis.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.3 Credit risk exposure

4.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

IFRS 7-34(a)
IFRS 7-35M
IFRS 7-35K
IFRS 7-IG20C

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.

	Retail loans and advances				
	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL		
	KShs'millions	KShs'millions	KShs'millions	KShs'million	KShs'millions
Investment grade					
Standard monitoring					
Special monitoring					
Default					
Gross carrying amount					
Loss allowance					
Carrying amount					

[Include comparative table at 31 December 2020]

The above disclosures should be repeated for each class of financial instruments, including loan commitments and financial guarantees.

4.1.3.2 Maximum exposures to credit risk – Financial instruments not subject to impairment

IFRS 7-34(a)
IFRS 7-36(a)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL)

At 31 December 2021	**Maximum exposure to credit risk** KShs'millions
Trading assets	
Debt Securities	
Financial assets designated at fair value	
Debt securities	
Loans and advances to customers	

[Include comparative table at 31 December 2020]

NOTES (CONTINUED)

4. Financial risk management (continued)

IFRS 7-36(b)

IFRS-7B8F,G

4.1.3.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

IFRS 7-35K(b)

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. 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 period.

IFRS 7-35k(b)

A portion of the Group's financial assets originated by the mortgage business has sufficiently low "loan to value" (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's expected credit loss model. The carrying amount of such financial assets at 31 December 2021 is KShs XX million (2020: KShs XX million).

IFRS 7-35K(c)

The Group closely monitors collateral held for financial assets considered to be credit impaired, 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:

At 31 December 2021	Gross exposure KShs'millions	Impairment allowance KShs'millions	Carrying amount KShs'millions	Fair value of collateral held KShs'million
Retail loans and advances				
Mortgages				
Loans to corporate entities				
Other assets				
Total credit-impaired assets				

[Include comparative table at 31 December 2020]

IFRS- 7AppxB10

4.1.3.4 Lending limits

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

NOTES (CONTINUED)

4. Financial risk management (continued)

IFRS 7-36(b)

4.1.3.5 Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

IFRS7AppxB10 (c)(d)

4.1.3.6 Financial covenants (for credit related commitments and loan books)

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

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

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

IFRS 7-35H

4.1.4 Impairment and provisioning policies

IFRS 7-IG20B The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 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 allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and 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;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

NOTES (CONTINUED)

4. Financial risk management (continued)

The following tables explain the changes in the loss allowance in the year due to these factors:

	Retail loans and advances			
Year ended 31 December 2021	**Stage 1** 12-month ECL KShs'millions	**Stage 2** Lifetime ECL KShs'millions	**Stage 3** Lifetime ECL KShs'millions	**Total** KShs'million
At start of year				
Net staging transfers				
Changes in PDs/LGDs/EADs				
Changes in model assumptions				
Modification of contractual cash flows				
Unwind of discount				
Net charge to profit or loss in the year				
Other movements with no P&L impact:				
Net staging transfers				
Financial assets derecognised				
Write-offs				
At year end				

[Include comparative table for the year ended 31 December 2020]

The unwinding of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognised on the amortised cost, after deducting the expected credit loss.

The above disclosures should be repeated for each class of financial instruments, including loan commitments and financial guarantees.

IFRS 7-35I The following table explains changes in the gross carrying amount of the retail loans and advances to help explain the changes in the loss allowance for the same portfolio:

	Retail loans and advances			
Year ended 31 December 2021	**Stage 1** 12-month ECL KShs'millions	**Stage 2** Lifetime ECL KShs'millions	**Stage 3** Lifetime ECL KShs'millions	**Total** KShs'million
At start of year				
Net staging transfers				
Financial assets derecognised				
New financial assets originated				
Modification of contractual cash flows				
Changes in interest accrual				
Write-offs				
FX translation and other movements				
At year end				

[Include comparative table for the year ended 31 December 2020]

The disclosures above should be repeated for each class of financial instruments but are omitted for illustrative purposes.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.4 Concentration of risks of financial assets with credit exposure

IFRS 7-34(c)

At 31 December 2021 ***In millions of Kenya Shillings***	**Financial institutions**	**Manu-facturing**	**Real estate**	**Retail and trade**	**Public sector**	**Individuals**	**Total**
Balances with the Central Bank							
Loans and advances to Banks							
Corporate loans and advances							
- Term loans							
- Overdrafts							
Retail loans and advances							
– Overdrafts							
– Credit cards							
– Term loans							
– Mortgages							
Trading assets							
Investment securities							
Other assets							
Off-balance sheet items:							
Financial guarantees							
Undrawn commitments							
Total credit exposure							

At 31 December 2020 ***In millions of Kenya Shillings***	**Financial institutions**	**Manu-facturing**	**Real estate**	**Retail and trade**	**Public sector**	**Individuals**	**Total**
Balances with the Central Bank							
Loans and advances to Banks							
Corporate loans and advances							
- Term loans							
- Overdrafts							
Retail loans and advances							
– Overdrafts							
– Credit cards							
– Term loans							
– Mortgages							
Trading assets							
Investment securities							
Other assets							
Off-balance sheet items:							
Financial guarantees							
Undrawn commitments							
Total credit exposure							

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.5 Write-off policy

IFRS 7-35H

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

IFRS 7-35F
IFRS 7-35L

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was KShs XX millions (2020: KShs XX millions). 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 recovering in full.

4.1.6 Modifications 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.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. 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.

IFRS 7-35F
IFRS 7-35J

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. The gross carrying amount of such assets at 31 December 2021 was KShs XX millions (2020: KShs XX millions).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets using specific models for modified assets.

[Consider rewording based on the Group's revised loan restructuring and modification policies and processes as a response to the impact of COVID-19 pandemic]

NOTES (CONTINUED)

4. Financial risk management (continued)

4.1.8 Debt securities

The tables below present an analysis of debt securities by rating agency designation at 31 December 2021 and at 31 December 2020, based on Standard & Poor's ratings or their equivalent: ***[Present the analysis for Group and Bank]***

In millions of Kenya Shillings	Trading assets	Investment securities	Total
At 31 December 2020			
AAA			
AA- to AA+			
A- to A+			
Lower than A-			
Total			
At 31 December 2021			
AAA			
AA- to AA+			
A- to A+			
Lower than A-			
Total			

4.2 Market risk

IFRS 7-31
IFRS 7-33(a)

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

IFRS 7-33(b)

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

NOTES (CONTINUED)

4. Financial risk management (continued)

(a) Value at risk

IFRS 7-41

The Bank applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored daily by Bank Treasury. Interest rate risk in the non-trading book is measured using interest rate repricing gap analysis (Note 3.2.4).

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by Bank Treasury. Average daily VAR for the Bank was KShsXXX in 2021 (2020: KShsXXX). The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

NOTES (CONTINUED)

4. Financial risk management (continued)

Value at risk summary

(a) VAR by risk type

	12 months to 31 December 2021			12 months to 31 December 2020		
In millions of Kenya Shillings	Average	High	Low	Average	High	Low
Foreign exchange risk						
Interest rate risk						
Equity risk						
Total VAR						

(b) Trading portfolio VAR by risk type

	12 months to 31 December 2021			12 months to 31 December 2020		
In KShs millions	Average	High	Low	Average	High	Low
Foreign exchange risk						
Interest rate risk						
Equity risk						
Total VAR						

The increase in VAR in 2021, especially the interest rate risk, relates mainly to the increased volatility of market interest rates in global principal financial markets.

4.3 Foreign exchange risk

IFRS 7-ApxB23

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2021. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES (CONTINUED)

4. Financial risk management (continued)

Foreign exchange risk exposure

At 31 December 2021 *In millions of Kenya Shillings*	Currency	USD	EUR	GBP	Other	Total
Assets						
Cash and balances						
Loans and advances to banks						
Loans and advances to customers						
Financial assets at FVTPL						
Investment securities:						
– At FVOCI						
– At amortised cost						
Other assets						
Total financial assets						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total financial liabilities						
Net on-balance sheet financial position						
Credit commitments						
Derivative financial instruments						

NOTES (CONTINUED)

4. Financial risk management (continued)

At 31 December 2020	Currency	USD	EUR	GBP	Other	Total
Assets						
Cash and balances						
Loans and advances to banks						
Loans and advances to customers						
Financial assets held for trading						
Investment securities:						
– At FVOCI						
– At amortised cost						
Other assets						
Total financial assets						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total financial liabilities						
Net on-balance sheet financial position						
Credit commitments						

IFRS 7-40 The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to functional currency of the Group, with all other variables held constant:

	At 31 December 2021		At 31 December 2020	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthens by 5%				
USD weakens by 5%				
GBP strengthens by 5%				
GBP weakens by 5%				
Euro strengthens by 5%				
Euro weakens by 5%				

NOTES (CONTINUED)

4. Financial risk management (continued)

4.4 Interest rate risk

IFRS 7-31
IFRS 7-33

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

IFRS 7-34 (a)(b)

The tables below summarise the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing (for example for floating rate notes) and the maturity dates.
This table should be based on information provided internally to key management personnel. Otherwise, it is not required by IFRS 7.

In millions of Kenya Shillings	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
At 31 December 2021							
Assets							
Cash and balances							
Loans and advances to banks							
Loans and advances to customers							
Financial assets held for trading							
Investment securities:							
– At FVOCI							
– At amortised cost							
Other assets							
Total financial assets							
Liabilities							
Deposits from banks							
Deposits from customers							
Other liabilities							
Dividend payable							
Total financial liabilities							
Total interest repricing gap							

[Include comparative table at 31 December 2020]

4. Financial risk management (continued)

4.4 Interest rate risk (continued)

At 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances							
Loans and advances to banks							
Loans and advances to customers							
Financial assets held for trading							
Investment securities:							
– At FVOCI							
– At amortised cost							
Other assets							
Total financial assets							
Liabilities							
Deposits from banks							
Deposits from customers							
Other liabilities							
Dividend payable							
Total financial liabilities							
Total interest repricing gap							

[Include comparative table at 31 December 2020]

4.5 Liquidity risk

IFRS 7-31
IFRS 7-33
IFRS 7-39 (c)

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

IFRS 7-39(c)
IFRS 7-AppxB11F

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

NOTES (CONTINUED)

4. Financial risk management (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3-3.3.4).

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Funding approach

IFRS 7-39(c)

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, provider, product and term.

Non-derivative financial liabilities and assets held for managing liquidity risk

IFRS 7-39(a) IFRS 7AppxB11, B14 IFRS 7Appx B10A

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

[Where the liquidity gap is negative, please provide detailed narrative on plans to bridge the funding gap]

IFRS 7-39(a)

At 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total liabilities (contractual maturity dates)						
Assets held for managing liquidity risk (contractual maturity dates) (IFRS7 AppxB11E)						
Liquidity gap						
At 31 December 2021						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total liabilities (contractual maturity dates)						
Assets held for managing liquidity risk (contractual maturity dates) (IFRS7 AppxB11E)						
Liquidity gap						

NOTES (CONTINUED)

4. Financial risk management (continued)

Assets held for managing liquidity risk
The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

4.6 Derivative liabilities

IFRS7p39 (b), AppxB11D (d)

The Bank's derivatives that are settled on a gross basis include foreign exchange derivatives: currency forward and currency swaps.

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. Some of the Bank's derivatives are subject to collateral requirements. The amounts disclosed in the table are the contractual undiscounted cash flows.

In millions of Kenya Shillings	**Up to 1 month**	**1 -3 months**	**3 -12 months**	**1-5 years**	**Over 5 years**	**Total**
At 31 December 2020						
Derivatives held for trading						
Foreign exchange derivatives:						
– Outflow						
– Inflow						
At 31 December 2021						
Derivatives held for trading						
Foreign exchange derivatives:						
– Outflow						
– Inflow						

4.7 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 35) are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 35) are also included in the table below, based on the earliest contractual maturity date.

NOTES (CONTINUED)

4. Financial risk management (continued)

4.7 Off-balance sheet items

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35, are summarised in the table below.

Capital commitments for the acquisition of buildings and equipment (Note 35) are summarised in the table below

		No later than 1 year	1-5 years	Over 5 years	Total
	At 31 December 2020				
IFRS 7AppxB11B(b)	Loan commitments				
IFRS 7-39	Acceptances and other financial facilities				
IAS 17-35	Operating lease commitments				
IAS 16-74	Capital commitments				
	Total				
	At 31 December 2021				
	Loan commitments				
IFRS 7-39	Acceptances and other financial facilities				
IAS 17-35	Operating lease commitments				
IAS 16-74	Capital commitments				
	Total				

5. Fair value of financial instruments

5.1 Financial instruments not measured at fair value

IFRS7-25, AppxB2(a)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying amount		Fair value	
	2021	2020	2021	2020
Financial assets				
Loans and advances to banks				
Loans and advances to customers				
Financial assets carried at amortised cost				
Financial liabilities				
Deposits from banks				
Deposits from customers				
Other liabilities				
Off-balance sheet instruments				
Loan commitments				
Guarantees, acceptances and other liabilities				

NOTES (CONTINUED)

5. Fair value of financial instruments

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items during collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All loans and advances to banks are classified as level 2 under the fair value hierarchy table.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for financial assets carried at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

IFRS 7-29(a)

(iv) Deposits from banks and customers
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Off-balance sheet financial instruments
The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

NOTES (CONTINUED)

5. Fair value of financial instruments

5.2 Fair value hierarchy – assets and liabilities measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

IFRS 13-72

IFRS 13-76

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Security Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

IFRS 13-81

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

IFRS 13-86

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

IFRS 13-93(b)

	Level 1	Level 2	Level 3	Total
31 December 2021				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
Equity securities				
Derivatives				
Financial assets at fair value through other comprehensive income:				
- Investment securities – debt				
- Investment securities – equity				
Total assets				

IFRS 13-93(b)

	Level 1	Level 2	Level 3	Total
31 December 2020				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
Equity securities				
Derivatives				
Financial assets at fair value through other comprehensive income:				
- Investment securities – debt				
- Investment securities – equity				
Total assets				

NOTES (CONTINUED)

5.2 Fair value hierarchy - assets and liabilities measured at fair value

IFRS 13-93(e)

Reconciliation of Level 3 items

	Financial assets held for trading	
	Debt securities	**Equity securities**
Year ended 31 December 2020	KShs'millions	KShs'millions
At 1 January 2021		
Total losses		
- Profit or loss		
Purchases		
Settlements		
Transfers into or out of level 3		
At 31 December 2020		
Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2020		
Year ended 31 December 2021		
At start of year		
Total losses		
- Profit or loss		
Purchases		
Settlements		
Transfers into or out of level 3		
At end of year		
Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2021		

6. Management of capital

IAS 1-134

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) To comply with the capital requirements set by the Central Bank of Kenya;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
IAS 1-135(a) (iii) To maintain a strong capital base to support the development of its business.

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

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level agreed with the Central Bank which takes into account the risk profile of the Bank.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

Tier 1 capital: share capital, general banking reserve, retained earnings and reserves created by appropriations of retained earnings; and
Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of financial instruments at fair value through other comprehensive income.

NOTES (CONTINUED)

6. Management of capital (continued)

The risk weighted assets are measured by means of a hierarchy of 4 risk weights. Risk weights are assigned to assets and off-balance sheet items according to the Bank's own estimates of probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF) for retail business and claims to central governments, institutions and corporates. Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II.

IAS 1-135(b)
IAS 1-135(d)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2021 and 2020. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2021	2020
In millions of Kenya Shillings		
Tier 1 capital		
Share capital		
Share premium		
General banking reserve		
Retained earnings		
Less: Intangible assets		
Total qualifying Tier 1 capital		
Tier 2 capital		
Revaluation reserve – available-for-sale investments		
Collective impairment allowance		
Total qualifying Tier 2 capital		
Total regulatory capital		
Risk-weighted assets:		
On-balance sheet		
Off-balance sheet		
Total risk-weighted assets		
Basel ratio		

IAS I-135(c)

The increase of the Tier 1 qualifying capital in the year of 2021 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2021.

IAS 1-122
IAS 1-125
IAS 1-129

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

NOTES (CONTINUED)

NOTES (CONTINUED)

7. Operating segments

[Please note that the disclosures below are illustrative only and segment reporting has to be tailored to follow internal reporting to CODM]

IFRS 8-20, 27(a)

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the entity. The functions of the CODM are performed by the *[Board of Directors or management committee]* of the Group.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Operating segments

The Group comprises the following main operating segments:

(i) **Corporate Banking** - includes loans, deposits and other transactions and balances with corporate customers

(ii) **Retail Banking** - includes loans, deposits and other transactions and balances with retail customers

(iii) **Central Treasury** - undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to operating segments on a reasonable basis.

The group segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service levels.

The CODM evaluates performance of each segment based on profit before tax (segment results).

NOTES (CONTINUED)

7. Operating segments (continued)

Operating segments - 2020

	In millions of Kenya Shillings	Corporate banking	Retail banking	Central treasury[3]	Shared services	Unallocated	Consolidated
IFRS 8-23(a)	External revenue						
IFRS 8-23(c)-(d)	Interest income						
	Interest expense						
IFRS 8-23(f)	Net fee and commission income						
IFRS 8-23(f)	Net trading income						
IFRS 8-23(f)	Net income from other financial Instruments carried at fair value						
IFRS 8-23(f)	Other operating income						
IFRS 8-23(b)	Inter segment revenue						
IFRS 8-32	Total segment revenue						
IFRS 8-21(b)	Profit before tax						
	Income tax expense						
IFRS 8-21(b)	Profit for the period						
IFRS 8-21(b)	Segment assets						
	Unallocated assets						
IFRS 8-21(b)	Total assets						
IFRS 8.21(b)	Segment liabilities						
	Unallocated liabilities						
IFRS 8.21(b)	Total liabilities						
IFRS 8.23(i)	Impairment losses on financial assets						
	Depreciation and amortisation						
	Restructuring costs						
IFRS 8.23(i)	Capital expenditure						

[IFRS8p33 requires certain mandatory disclosure of geographical information in addition to the information on reportable segments]

NOTES (CONTINUED)

7. Operating segments (continued)

IFRS 8.20, 27(a) **Operating segments - 2021**

	In millions of Kenya Shillings	Corporate banking	Retail banking	Central treasury	Shared services	Unallocated	Consolidated
IFRS 8-23(a)	External revenue						
IFRS 8-23(c)-(d)	Net interest income						
	Interest expense						
IFRS 8-23(f)	Net fee and commission income						
IFRS 8-23(f)	Net trading income						
IFRS 8-23(f)	Net income from other financial Instruments carried at fair value						
IFRS 8-23(f)	Other operating income						
IFRS 8-23(b)	Intersegment revenue						
IFRS 8-21(b)	Total segment revenue						
IFRS 8-21(b)	Segment result						
	Income tax expense						
IFRS 8-21(b)	Profit for the period						
IFRS 8-21(b)	Segment assets						
	Unallocated assets						
IFRS 8-21(b)	Total assets						
IFRS 8-21(b)	Segment liabilities						
	Unallocated liabilities						
IFRS 8-21(b)	Total liabilities						
IFRS 8-23(i)	Impairment losses on financial assets						
	Depreciation and amortisation						
	Restructuring costs						
IFRS 8-23(i)	Capital expenditure						

NOTES (CONTINUED)

8. Net interest income

In millions of Kenya Shillings	**2021**	**2020**
Interest income		
Cash and cash equivalents		
Loans and advances to customers		
Financial assets carried at amortised cost		
Financial assets carried at fair value through other comprehensive income		
Total interest income		
Interest expense		
Deposits from banks		
Deposits from customers		
Debt securities issued		
Interest expense on lease liabilities		
Total interest expense		
Net interest income		

9. Net fee and commission income

In millions of Kenya Shillings	**2021**	**2020**
Fee and commission income		
Retail banking customer fees		
Corporate banking credit related fees		
Other		
Total fee and commission income		
Fee and commission expense		
Brokerage		
Interbank transaction fees		
Other		
Total fee and commission expense		
Net fee and commission income		

Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers

10. Net trading gains

In millions of Kenya Shillings	**2021**	**2020**
Foreign currency trading		
Other		
Total trading income		

NOTES (CONTINUED)

11. Net gains from financial instruments carried at fair value through profit or loss

	In millions of Kenya Shillings	**2021**	**2020**
IFRS 7-20(a)	Derivatives held for risk management purposes		
	Investment securities		
	Loans and advances		

IFRS 7-10(a) At 31 December 2021, the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was KShsXXX (2020: KShsXXX).

12. Other operating income

In millions of Kenya Shillings	**2021**	**2020**
Gain on sale of financial assets carried at fair value through OCI		
Government bonds		
Corporate bonds		
Other income		

13. Personnel costs

In millions of Kenya Shillings

The following items are included within personnel costs:

		2021	**2020**
	Salaries and wages		
IAS19p46	Contributions to defined contribution plans		
	Defined benefit retirement plans (Note 33)		
	Post-employment medical benefits (Note 33)		

CA 649(2) The average number of employees during the year were as follows:

Corporate Banking	
Retail banking	
Shared services	

NOTES (CONTINUED)

14. Other operating expenses

In millions of Kenya Shillings	**2021**	**2020**
Other operating expenses include the following:		
Software licensing and other information technology costs		
Branch closure cost provisions		
Redundancy costs		
Auditors' remuneration		
Depreciation of property and equipment		
Amortisation of prepaid operating lease rentals		
Amortisation of right-of-use assets		

15. Income tax expense

IAS 12-79	**Recognised in the profit or loss**		
	In millions of Kenya Shillings	**2021**	**2020**
	Current tax expense		
IAS 12-80(a)	Current year		
IAS 12-80(b)	Adjustments for prior years		
	Deferred income tax expense (Note 28)		
IAS 12-80(c)	Origination and reversal of temporary differences		
IAS 12-80(f)	Recognition of previously unrecognised tax losses		
	Total income tax expense		

IAS 12-81(c)	**Reconciliation of effective tax rate**		
	In millions of Kenya Shillings		
	Profit before income tax		
	Income tax using the enacted tax rate		
	Tax effect of:		
	- Non-deductible expenses		
	- Effects of change in tax rate		
	Recognition of previously unrecognised tax losses		
	(Over) provisions in prior years		
	Total income tax expense in income statement		

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2021 is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

IAS 33-70(a)	**Profit attributable to ordinary shareholders**		
	In millions of Kenya Shillings	**2021**	**2020**
	Net profit for the period attributable to equity holders of the Bank		
IAS 33-70(b)	Weighted average number of ordinary shares at 31 December		
	Basic earnings per share *(in Kenya Shillings)*		

NOTES (CONTINUED)

16. Earnings per share (continued)

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2021 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all potential dilutive ordinary shares, calculated as follows:

IAS 33-70(a)

Profit attributable to ordinary shareholders (diluted) *In millions of Kenya Shillings*	**2021**	**2020**
Profit for the period attributable to ordinary shareholders		

IAS 33-70(b)

Weighted average number of ordinary shares (diluted) *In millions of shares*		
Weighted average number of ordinary shares (basic)		
Potential dilutive ordinary shares		
Weighted average number of ordinary shares (diluted) at 31 December		
Diluted earnings per share *(in Kenya Shillings)*		

17. Dividend per share

At the Annual General Meeting to be held on XXXXXX2021, a final dividend in respect of the year ended 31 December 2021 of KShsXXX (2020 – KShsXXX) per share will be proposed. An interim dividend of KShsXXX (2020 – KShsXXXX) per share was paid during the year. This will bring the total dividend for the year to KShsXXX (2020 – KShsXXX) per share.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

18. Cash and bank balances

	Group		**Bank**	
	2021	**2020**	**2021**	**2020**
Cash on hand				
Balances with Central Banks				
Cash reserve ratio balance				
Other current accounts				

Cash reserve ratio relates to the regulatory cash balance held with the Central Bank of Kenya, being 5.25% (2020: 5.25%) of eligible deposits as per the prudential guidelines. The balance is not available for day-to-day operations of the bank and are non-interest bearing.

NOTES (CONTINUED)

19 Assets and liabilities at fair value through profit or loss

		Group		Bank	
		2021	**2020**	**2021**	**2020**
IFRS 9-4.1.1	Financial assets held for trading				
	Government treasury bills and bonds				
	Corporate bonds				
	Derivative financial instruments				
	Financial liabilities held for trading				
	Derivative financial instruments				
	Over the counter structured derivatives				

20 Investment securities

[Include comparative table at 31 December 2020]

	Financial assets at fair value through other comprehensive income	Group	Bank
IFRS 9-4.1.1	Government securities – at fair value:		
	- Maturing within 90 days of the date of acquisition		
	- Maturing after 90 days after the date of acquisition		
	Debt securities – at fair value		
IFRS 9-4.1.1	Financial assets at amortised cost		
	Government securities - at amortised cost:		
	- Maturing within 90 days of date of acquisition		
	- Maturing after 90 days of the date of acquisition		
	Debt securities – at amortised cost		

IAS 1-61	**Maturity profile of investment securities**	Maturing within 12 months	Maturing after 12 months	Total
	Financial assets carried at fair value through other comprehensive income			
	Financial assets carried at amortised costs			

NOTES (CONTINUED)

21 Loans and advances to customers

IFRS7.8(a)

Group	2021			2020		
Retail portfolio	Gross	Credit loss allowance	Carrying amount	Gross	Credit loss allowance	Carrying amount
Mortgage lending						
Personal unsecured loans						
Credit cards						
Corporate portfolio						
Term loans						
Overdraft facilities						
Asset finance						
Bank						
Retail portfolio						
Mortgage lending						
Personal unsecured loans						
Credit cards						
Corporate portfolio						
Term loans						
Overdrafts facilities						
Asset finance						

IFRS 7-.8(f)

Allowance for expected credit losses

	Retail		**Corporate**		**Total**	
Group	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Individually assessed:						
At start of year						
Credit loss allowance						
- Charge for the year						
- Recoveries in the year						
- Effects of currency translation						
Write-offs						
At end of year						
Collectively assessed:						
At start of year						
Charge for the year						
At end of year						
Total provision for credit loss						

NOTES (CONTINUED)

21 Loans and advances to customers (continued)

Allowance for expected credit losses

	Retail		Corporate		Total	
Bank	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Individually assessed:						
At start of year						
Credit loss allowance for the year						
- Charge for the year						
- Recoveries in the year						
- Effects of currency translation						
Write-offs						
At end of year						
Collectively assessed:						
At start of year						
Charge for the year						
At end of year						
Total provision for credit loss						

Additional disclosures on impairments and provisions for credit losses are set out under note 4.1.4

22. Other assets and prepayments

		Group		Bank	
		2021	**2020**	**2021**	**2020**
IAS1.77	Other receivables and prepayments				
IAS1.54(h)	Accrued income				
	Derivative financial instruments				
	Items in course of collection				

NOTES (CONTINUED)

23. Property and equipment

	In millions of Kenya Shillings	Land and buildings	IT equipment	Fixtures and fittings	Total
IAS 16-73(d), (e)	**Cost**				
	At 1 January 2020				
	Additions				
	Disposals				
	At 31 December 2020				
	At 1 January 2021				
	Additions				
	Disposals				
	At 31 December 2021				
	Depreciation and impairment losses				
	At 1 January 2020				
	Depreciation charge				
IAS 16-73(e)(vii)	Impairment loss				
	At 31 December 2020				
	At 1 January 2021				
	Depreciation charge				
IAS 16-73(e)(vii)	Impairment loss				
	At 31 December 2021				
IAS 1-78(a), 16-73(e)	**Net book amounts**				
	At 1 January 2020				
	At 31 December 2020				
	At 31 December 2021				

Property and equipment, other than freehold land, have been depreciated on a straight-line basis over their estimated useful lives as follows:

– Buildings	25-40 years
– Leasehold improvements	25 years, or over the period of the lease if less than 25 years
– Equipment and motor vehicles	3-8 years

NOTES (CONTINUED)

24. Right-of-use assets

IAS 38-118(c), (e)	*In millions of Kenya Shillings*	**Buildings**	**Equipment**	**Total**
	At start of year			
	Transferred from property, plant and equipment			
	Effect of adoption of IFRS 16 (note 42)			
IFRS 16-53(h)	Additions			
IFRS 16-53(a)	Amortisation charge to profit or loss			
	At end of year			

IFRS 16-59 The company leases various office buildings, warehouses, and equipment in the normal course of business. The leases for buildings and warehouses are typically for a period of between xx and xx years, with option to renewal at the end of the term. Leases of equipment are typically for periods of between 2 and 5 years. None of these leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amounts for payments for right-of-use assets represents:

	KShs'millions
Additions (as above)	
Less: amounts financed through leases	

If as a result of the pandemic, the company has been given rent concessions by its landlord(s), under an amendement to IFRS 16, issued in May 2020, the company can opt to account for this as a lease modification. If the camonay takes advantage of this practical expedient, it is required to disclose that (a) it has applied the practical expedient to all rent concessions that meet the conditions on paragraph 46 B of IFRS 16 or if not applied to all such concessions, information about the nature of the contracts to which it has applied the practical expedient; and (b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the company has applied the practical expedient.

NOTES (CONTINUED)

25. Intangible assets

	In millions of Kenya Shillings	Purchased software	Developed software	Total
IAS 38-118(c), (e)	**Cost**			
	At 1 January 2020			
	Additions			
	Internal development			
	At 31 December 2020			
	At 1 January 2021			
	Additions			
	Internal development			
	At 31 December 2021			
	Amortisation and impairment			
	At 1 January 2020			
	Amortisation charge			
IAS 36-126(a)	Impairment loss			
	At 31 December 2020			
	At 1 January 2021			
	Amortisation charge			
IAS 36-126(a)	Impairment loss			
	At 31 December 2021			
IAS 38-118(c)	**Carrying amounts**			
	At 1 January 2020			
	At 31 December 2020			
	At 31 December 2021			

IAS 36-129(a), 131 During 2020 and 2021, the retail banking operations reconsidered their future requirements in relation to customer information software and have recognised an impairment in line with its planned replacement in the near term.

26. Deferred income tax

Recognised deferred tax assets and liabilities

IAS 12-81(g)(i) Deferred tax assets and liabilities are attributable to the following:

In millions of Kenya Shillings	Assets/(liabilities) 2021	Assets/(Liabilities) 2020
Property and equipment		
Right-of-use assets		
Financial assets carried at FVOCI		
Credit loss allowances		
Tax losses carry-forward		
Other temporary differences		
Net tax assets/(liabilities)		

The deferred tax asset has been recognised based on the projected future taxable profits that will be available against which the deductible temporary differences and tax losses carried forward can be utilised. All the recognised tax losses relate to subsidiaries and are not subject to expiry before utilisation.

NOTES (CONTINUED)

26. Deferred income tax (continued)

Movements in temporary differences during the year

IAS 12-74

In millions of Kenya Shillings	**At start of year** *(restated)*	**Recognised in profit or loss**	**Other comprehensive income**	**At end of year**
2020				
Property and equipment				
Financial assets carried at FVOCI				
Credit loss allowances				
Tax losses carry-forwards				
Other temporary differences				
2021				
Property and equipment,				
Right-of-use assets				
Financial assets carried at FVOCI				
Credit loss allowances				
Tax loss carry-forwards				
Other temporary differences				

IAS 12-81a)

In millions of Kenya Shillings	**2021**	**2020**
The (credit)/charge to other comprehensive income relates to:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit asset/liability		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Changes in fair value of available for sale financial assets		

IAS 12-82A If all the retained earnings of the group at 31 December 2021 were to be distributed, an additional income (compensating) tax of KShsXXX (2020: KShsXXX) would be payable. This liability has not been recognised.

NOTES (CONTINUED)

27 Deposits from banks

	Group		Bank	
	2021	**2020**	**2021**	**2020**
Money market deposits				
Other deposits from banks				
Items in the course of collection				

28 Deposits from customers

Retail customers:				
Term deposits				
Savings and Current accounts				
Corporate customers:				
Term deposits				
Savings and current accounts				
Others				

29 Other liabilities and accrued expenses

Other payables and accrued expenses				
Derivative financial instruments				
Deferred income				
Items in course of collection				

30. Borrowings

Subordinated debt

The long-term subordinated debt (10 years) was raised from XXX to increase the Bank's supplementary capital and amounted to KShs XXX million (2020: KShsXXX million).

Senior loan

The Group has two long-term senior loans (ten years and five years respectively) raised from XXXXXXXXXX, in 2010 amounting KShs XXX millions.

NOTES (CONTINUED)

30. Borrowings (continued)

In millions of Kenya Shillings	**2021**	**2020**
Subordinated debt		
At start of year		
Accrued interest		
Repaid during the year		
Currency translation difference		
Senior loan		
At start of year		
Additions during the year		
Accrued interest		
Repaid during the year		
Currency translation difference		

31. Lease liabilities

In millions of Kenya Shillings	**2021**	**2020**
Expected to be settled within 12 months after the year end		
Expected to be settled more than 12 months after the year end		

IFRS 16-53(g) The total cash outflow for leases in the year was :

Payments of principal portion of the lease liability		
Interest paid on lease liabilities		

In 2020 the Group recognised lease assets and lease liabilities only for those leases that were classified as finance leases under the accounting policy at that time. The assets were included in property, plant and equipment and the liabilities were included in borrowings.

Reference **NOTES (CONTINUED)**

32. Provisions for liabilities

	In millions of Kenya Shillings	Redund-ancy	Branch closures	Onerous contracts	Total
IAS 37-84(a)	At 1 January 2020				
IAS 37-84(b)	Provisions made during the year				
IAS 37-84(d)	Provisions reversed during the year				
	Utilised during the year				
IAS 37-84(a)	At 31 December 2020				
IAS 37-84(a)	At 1 January 2021				
IAS 37-84(b)	Provisions made during the year				
IAS 37-84(d)	Provisions reversed during the year				
	Utilised during the year				
IAS 37-84(a)	At 31 December 2021				

IAS 37-85(a), (b),

Redundancy and branch closures

In accordance with the *Delivery Channel Optimisation* plans announced by the Group in November 2021, the Group is in the process of rationalising its retail branch network and related processing functions. The provision for redundancies and branch closures relates to estimated costs for staff for staff retrenchments and branch closures to be completed in 2021.

IAS 37-85(a), (b)

Onerous contracts

The Group is lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases, the rental income from sub-leasing these properties is lower than the rental expense. A provision has been made for the present value of the future lease payments less the lease receivables for those properties.

Reference **NOTES (CONTINUED)**

1.

33. Retirement benefits obligation

IAS 19-120A(b) The Group makes contributions to a non-contributory defined benefit plan that provides pension and medical benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service, and to the reimbursement of certain medical costs.

The table below outlines where the group's post-employment amounts and activity are included in the financial statements

The amounts recognised in the statement of financial position are as follows:

	In millions of Kenya Shillings	**2021**	**2020**
IAS 19-120A(d), (f)	Defined pension benefits		
IAS 19-120A(d), (f)	Post employment medical benefits		
IAS 19-120A(f)	Recognised liability for defined benefit obligations		
	Income statement charge included in profit or loss:		
IAS 19-120A(d), (f)	Defined pension benefits		
IAS 19-120A(d), (f)	Post employment medical benefits		
	Remeasurements for:		
IAS 19-120A(d), (f)	Defined pension benefits		
IAS 19-120A(d), (f)	Post employment medical benefits		

IAS 19-135b) The following table analyses the components of defined benefit costs recognized in comprehensive income

In millions of Kenya Shillings	**2021**	**2020**
Current service cost		
Past service cost and loss arising from settlements		
Net interest expense		
Components of defined benefit costs recognised in profit or loss		
Return on plan assets (excluding amounts included in net interest expense)		
Actuarial losses arising from changes in demographic assumptions		
Actuarial gains arising from changes in financial assumptions		
Actuarial losses arising from experience adjustments		
Components of defined benefit costs recognised in other comprehensive income		
The net defined benefit liability [/asset] in the balance sheet comprises:		
Present value of the defined benefit obligation		
Less: Fair value of plan assets		

Reference **NOTES (CONTINUED)**

33. Retirement benefits obligation (continued)

In millions of Kenya Shillings	2021	2020
IAS 19-140, 141 The movement in the defined benefit obligation over the year		
At start of year		
Current service cost		
Net interest expense		
Past service cost and loss arising from settlements		
Actuarial losses arising from changes in demographic assumptions		
Actuarial gains arising from changes in financial assumptions		
Actuarial losses arising from experience adjustments		
Benefits paid		
At end of year		
The movement in the fair value of plan assets is as follows:		
At start of year		
Return on plan assets (excluding amounts included in net interest expense)		
Employer contributions		
Employee contributions		
Benefits paid		
At end of year		
IAS 19-142 The fair value of plan assets comprises:		
Equity investments:		
Manufacturing		
Financial institutions		
Agriculture		
Debt securities:		
Treasury bonds		
High quality corporate bonds		
Investment property		
Other		
Total		

IAS 19-142 Only the equity investments and debt securities are quoted in an active market (Level 1)

IAS 19-143 Pension plan assets include a building occupied by the Bank with a fair value of KShsXXX million (2020: KShsXXX)

Reference NOTES (CONTINUED)

31. Retirement benefits obligation (continued)

Reference		2021	2020
IAS 19-144	The significant actuarial assumptions used were as follows:		
IAS 19-83	Discount rate (%)		
IAS 19-87	Future salary increases (%)		
IAS 19-82	Life expectancy after retirement age		

For each of the above significant actuarial assumptions, a sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant:

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by KShs million (increase by KShs XXX million)
- If the expected rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX)
- If the average life expectancy increases (decreases) by one year, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX).

IAS 19-145 a)

For the above sensitivity analysis, the present value of the defined benefit obligation has been determined using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in the statement of financial position.

IAS 19-145b)

Such sensitivity analysis might not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another.

IAS 19-147b) The expected contributions to the plan during 2021 are KShsXXX.

IAS 1-79

34. Share capital and premium

Reference		Number of shares (thousands)	Ordinary shares	Share premium	Total
IAS1.106(d)	At January 2020				
IAS1.54(h)	Bonus issue				
	At 31 December 2020				
	Issue for cash				
	At 31 December 2021				

IAS 1-76(a) At 31 December 2021 the authorised share capital comprised XX billion ordinary shares (2021: XX billion of KShsXXX each. All issued shares are fully paid.

IAS -1.76(a) On XXX2021, the company issued bonus shares of one ordinary share for every 10 shares held by capitalising KShsXXX from retained earnings.

On XXX2021 the company issued XXX shares for cash at a price of KShsXXX per share.

Reference **NOTES (CONTINUED)**

35. Regulatory reserve

IAS 1-76(b)

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

IAS 1-79

36. Other reserves

		Fair value reserves	Currency translation reserve	Total
IAS 1-76	At January 2020			
	Fair value gain/(loss) on financial assets carried at FVOCI			
	Reclassification to profit or loss – gain on disposal of debt instruments at FVOCI			
	Deferred income tax			
	Currency translation differences			
	At 31 December 2020			
	Fair value gain/(loss) on financial assets carried at FVOCI			
	Reclassification to profit or loss – gain on disposal of debt instruments at FVOCI			
	Deferred income tax			
	Currency translation differences			
	At 31 December 2021			

IAS 1-76(b)

The fair value reserve comprises the cumulative net change in the fair value of financial assets carried at fair value through other comprehensive income, until the investment is derecognised or impaired. The Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the bank's net investment in foreign operations.

37. Off balance sheet financial instruments, contingent liabilities and commitments

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the balance sheet. At the year end, the contingent items were as follows:

	2021	2020
Guarantees and standby letters of credit		
Letters of credit, acceptances and other documentary credits		
Performance bonds and warranties		
Derivatives commitments:		
Forward foreign exchange contract amounts		

Reference **NOTES (CONTINUED)**

37. Off balance sheet financial instruments, contingent liabilities and commitments

Nature of contingent liabilities
Guarantees are generally written by a 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 customer's default.

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under financial assets and liabilities held for trading.

IAS 17-35 **Operating leases**
Non-cancellable operating lease rentals are payable as follows:

In millions of Kenya Shillings	**2020**
Less than one year	
Between one and five years	
More than five years	

IAS 17-35(d) The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to XX years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

39. Investment in subsidiaries

IFRS 12-10(a), 12(a-c)

	Ownership interest	
	2021	**2020**
XYX Limited		
PQ Limited		

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

IFRS 12-12 The total non-controlling interests at 31 December 2021 is KShsXXX (2020: KShsXXX), of which KShsXXX is for XYX Limited and KShsXXX is attributable to PQ Limited..

IFRS 12-18 There were no transactions with non-controlling interests during the year, other than payment of dividends by the subsidiaries.

Significant restrictions
IFRS 12-10(b)(i) There are restrictions on exporting capital in the country where XYX is incorporated, other than through normal dividends.

Reference **NOTES (CONTINUED**

IFRS 12-12(g)

B10(10)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised balance sheets

	XYX Limited At 31 December		PQ Limited At 31 December	
	2021	**2020**	**2021**	**2020**
Current				
Assets				
Liabilities				
Total current net assets				
Non-current				
Assets				
Liabilities				
Total non-current net assets				
Net asset				

Summarised income statements

	XYX Limited For the year ended 31 December		PQ Limited For the year ended 31 December	
	2021	**2020**	**2021**	**2020**
Revenue				
Profit before income tax				
Income tax expense				
Profit for the year				
Other comprehensive income				
Total comprehensive income				
Total comprehensive income allocated to non-controlling interests				
Dividends paid to non-controlling interests				

Summarised cash flows

Cash flows from operating activities				
Cash generated from operations				
Interest paid				
Income tax paid				
Net cash generated from operating activities				
Net cash used in investing activities				
Net cash from financing activities				
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at start of year				
Exchange differences in cash and cash equivalents				
Cash and cash equivalents at end of year				

IFRS 12-B11 The information above are the amounts before inter-company eliminations.

Reference **NOTES (CONTINUED**

40 Analysis of cash and cash equivalents as shown in the statement of cash flows

	In millions of Kenya Shillings	2021	2020
IAS 7-45	Cash and balances with the central banks		
	Less: cash reserve ratio requirement		
	Government securities maturing within 91 days at the point of acquisition		
	Deposits and balances due from banking institutions		
	Deposits and balances due to banking institutions		

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition, including: cash and balances with Central Banks, treasury bills and bonds and amounts due from other banks. Cash and cash equivalents exclude the cash reserve ratio requirement held with the Central Banks. Banks are required to maintain a prescribed minimum cash balance with the Central Banks that is not available to finance the banks' day-to-day activities. In the case of the Bank, the amount is determined as 5.25 % (2021: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

41. Related party transactions

IAS 24-17

Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

	In millions of Kenya Shillings	2021 Maximum balance	2021 Closing balance	2021 Maximum balance	2020 Closing balance
IAS 124-17(a), (b)					
	Mortgage lending and other secured loans				
	Credit card				
	Other loans				

Interest rates charged on balances outstanding are a quarter of the rates that would be charged in an arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured, and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the period comprised

In millions of Kenya Shillings	2021	2020
Short-term employee benefits		
Long-service leave		
Post-employment benefits		

Reference **NOTES (CONTINUED**

41. Related party transactions

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

(a) Loans and advances to key management	2021	2020
At start of year		
Loans advanced during the year		
Loans repayments received		
At end of year		

Interest earned on staff loans during the year amounted to KShsXXX (2020:KShsXXX).

Loan and advances to directors and their associates

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

In millions of Kenya Shillings	2021	2020
At start of year		
Interest charged		
Loans disbursed		
Repayments of loans and advances		
Net movement in overdraft balances		
At end of year		

Included in loans and advances is KShsXXX (2020 – KShsXXX) advanced to companies where relationship exists by virtue of shareholding and/or representation in the respective companies' board of directors. Loans and advances are at commercial terms in the ordinary course of business and are adequately secured.

The related interest income in 2021 was KShsXXX (2020 – KShsXXX).

Included in deposits is KShsXXX (2020 – KShsXXX) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShsXXXXX (2020 – KShsXXX).

All the transactions with the related parties have been entered in the normal course of business.

Directors' remuneration

In millions of Kenya Shillings	2021	2020
Executive directors:		
Salaries and wages		
Other benefits		
Fees and other benefits to non-exceutive directors		

Reference **APPENDIX – New and revised financial reporting standards**

IAS 8-30 The Group has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2021.

[Tailor as appropriate: IAS 8- 30(b) requires that the entity discloses known or reasonably estimable information relevant to assessing the possible impact that the application will have on the financial statements in the period of initial application.]

Amendments to IAS 37 titled Onerous Contracts-Cost of Fulfilling a Contract (issued in May 2020)
The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.

Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use
The amendments, applicable to annual periods beginning on or after 1 January2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendment to IFRS 1 titled Subsidiary as a First-time Adopter (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)
The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.

Amendment to IFRS 9 titled Fees in the '10percent' Test for Derecognition of Financial Liabilities (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018- 2020)
The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)
The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cashflows when measuring fair value.This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

APPENDIX – New and revised financial reporting standards

IFRS 17 *Insurance Contracts* (issued in May 2017)
The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The company does not issue insurance contracts.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)
The amendments, applicable to annual periods beginning on or after 1 January 2023, clarify a criterion in IAS1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

Amendments to IFRS 10 and IAS 28 titled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)
The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

Amendments to IAS 8 titled Definition of Accounting Estimates (issued in February 2021). The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021). The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IFRS 16 titled Covid-19-Related Rent Concessions Beyond 30th June 2021 (issued in March 2021). The previous amendment to IFRS 16 permitted the practical expedient to be applied only to reductions in lease payments that did not extend beyond 30th June 2021. This amendment, applicable to annual periods beginning on or after 1st April 2021 allows the practical expedient to be applied to reductions in lease payments that do not extend beyond 30th June 2022.

Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021). The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

[The above list of revised standards and interpretations was drafted in October 2021. It should be extended to include all such changes up to the date of approval of the financial statements. It is applicable for 31st December 2021 year ends only and may need to be amended for earlier or later periods. A summary of each new standard or amendment is included above for guidance: for new or amended standards that are not expected to have any impact on the financial statements, only the name of the standard or amendment needs to be disclosed.]

The following new and revised standards became effective for the first time in the financial year beginning 1stJanuary 2021:

Amendments to IFRS 16 titled Covid-19 Related Rent Concessions (issued in May 2020).
The amendments, applicable to annual periods beginning on or after 1st June 2020, permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

Amendments to IFRS 9, IAS 39 and IFRS 7 titled Interest Rate Benchmark Reform (issued in September 2020)
The amendments, applicable to annual periods beginning on or after 1 January 2021, modify specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a