Family Bank
With you, for life

INTEGRATED REPORT & FINANCIAL STATEMENTS 2021

FAMILY BANK

With You For Life

INTEGRATED REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

ABOUT THE INTEGRATED REPORT & FINANCIAL STATEMENTS 2021

Family Bank Limited is pleased to present its annual Integrated Report, which covers the period from 1 January 2021 to 31 December 2021. This report contains comprehensive information on our financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence our strategic initiatives. In this report, Family Bank demonstrates how we create and sustain value through our business.

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

We have implemented the framework as far as practical and our approach to integrated reporting will continue to evolve over time, in line with the framework. Our Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2015. We received external assurance from our auditor, PricewaterhouseCoopers LLP on the fair presentation of these annual financial statements. See the Independent Auditor's Report on pages 58 to 61.

TABLE OF CONTENTS

Family Bank at a Glance	6
Subsidiary	7
AGM Notice	9
Corporate Information	10 - 11
Board of Directors	13 - 16
Chairman's Statement	17 - 18
Statement from MD & CEO	19 - 23
Sustainability Review	25 - 45
Corporate Governance Statement	46 - 52
Governance Auditor's Report	53
Financial Statements:	
Report of the Directors	55 - 56
Statement of Directors Responsibilities	57
Independent Auditor's Report	58 - 61
Statements of profit or loss and other comprehensive income	62
Statements of financial position	63
Consolidated statement of changes in equity	64
Bank statement of changes in equity	65
Statements of cash flows	66
Notes	67 - 133

FAMILY BANK AT A GLANCE

Our Vision

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

Our Purpose

To enable people, create and sustain wealth through access to flexible, affordable financial services

Our Values

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

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

Transparency
Our customers will trust and reward us for it.

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

Our Tagline

Our positioning is best captured in our tagline and expresses the promise to our customers in the simplest way; "With you, for life".

SUBSIDIARY

FAMILY BANK INSURANCE AGENCY LIMITED

Family Bank Insurance Agency Limited (FBIA), a fully-fledged subsidiary of Family Bank Limited, was established in 2008. The Insurance Agency is licensed by the Insurance Regulatory Authority (IRA) since May 2010. In the thirteen years since its establishment, the Agency has recorded an impressive growth year-on-year, attaining a Gross Written Premium (GWP) of KES 1.2 Billion as at December 2021, mainly from its General, Life and Medical insurance businesses. This growth is attributed to improved customer experience, technological innovations in underwriting & distribution and new products.

FBIA is a leading provider of risk management & Bancassurance solutions. It has more than 50 members of staff, adequately experienced and qualified to handle your Bancassurance needs with representation in over 93 branches across the country.

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

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

OUR SERVICES

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

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

OPTIMUM PEACE OF MIND GUARANTEED

Family Bank Insurance Agency provides innovative insurance products designed to take care of you and your family through every aspect of life. Our products offer you great benefits while covering all your insurance needs.

Enjoy:

- Our competitive rates.
- Fast and easy processing of policies.
- Smooth processing of claims.

We offer a wide range of products which include:

- Motor Insurance
- Education Plans
- Property Insurance
- Life Assurance
- Medical Insurance
- Funeral Cover

Visit any Family Bank branches countrywide or call 0703 095 445

fia Family Bank INSURANCE AGENCY

Regulated by the Insurance Regulatory Authority

ANNUAL GENERAL MEETING

FAMILY BANK LIMITED

NOTICE IS HEREBY GIVEN THAT the 15th Annual General Meeting ('AGM') of Family Bank Limited will be held via electronic communication on Friday, 29th April 2022, at 9:00 a.m. to conduct the following business:

Ordinary Business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if thought fit, adopt the Integrated Report, the Audited Financial Statements for the year ended 31st December 2021, together with the Chairman's, Directors' and Auditors' reports thereon.
4. To approve the payment of a first and final dividend of Kshs. 0.83 per share, subject to withholding tax where applicable, on the issued and paid up capital of the Company and payable to shareholders registered as at 29th April 2022. To facilitate the payment of the Dividend, the register of members will be closed on 29th April 2022.
5. Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:
   - 5.1. Dr. Wilfred D. Kiboro having attained the age of seventy years retires from office by rotation and in terms of Clause 2.5 of the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, offers himself for re-election as a director of the Company.
   - 5.2. Mr. Francis G. Mungai retires by rotation and being eligible, offers himself for re-election as a director of the Company.
6. To receive, consider and if thought fit approve the Directors' remuneration for the year ending 31st December 2021.
7. To re-appoint PricewaterhouseCoopers (PwC) as auditors of the Company in accordance with Sections 721 and 724 of the Companies Act, 2015 and to authorise the directors to fix their remuneration.
8. To consider any other business for which due notice has been received.

By Order of the Board

Eric K. Murai
Company Secretary

7 April 2022

NOTES

1. In view of the ongoing Coronavirus (COVID-19) pandemic and the related Public Health Regulations, the Annual General Meeting (AGM) shall be held electronically as provided for under Article 57A of the Company's Articles of Association.

2. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:
   a) Dialling the USSD code *483*810# for Safaricom, Airtel and Telkom mobile telephone networks and following the various prompts regarding the registration; or
   b) Send an email request to be registered to familybankagm@image.co.ke
   c) Shareholders with email addresses will receive a registration link via email through which they can use to register

   In order to complete the registration process, shareholders will need to have their ID/ Passport Numbers which were used to purchase their shares and/or their Share Account Number at hand. For assistance shareholders should dial the following helpline number: (+254) 709 170 000 from 9:00 a.m. to 5:00 p.m. from Monday to Friday.

3. Registration for the AGM opens on Monday 11th April 2022 at 9:00AM and will close on Wednesday 27th April 2022 at 5.00PM. Shareholders will not be able to register after 27th April 2022 at 5.00pm.

4. In accordance with Section 283 (2) of the Companies Act, the following documents may be viewed on the Company's website: www.familybank.co.ke
   (i) a copy of this Notice and the proxy form;
   (ii.) the Company's audited financial statements for the year ended 31st December 2021.

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

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

   All questions and clarification must reach the Company on or before Thursday 28th April 2022 at 12:00 Noon. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the general meeting. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the general meeting.

6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is attached to this Notice and is available on the Company's website via this link. www.familybank.co.ke/company-profile/investor-relations. Physical copies of the proxy form are also available at the following address: Image Registrars Limited offices, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to info@image.co.ke or delivered to Image Registrars Limited, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 28th April 2022 at 11.00a.m. Any person appointed as a proxy should submit his/her mobile telephone number to the Company no later than 27th April 2022 at 5.00p.m. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 28th April 2022 at 11.00a.m to allow time to address any issues.

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

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

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

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www.facebook.com/familybankkenya
www.twitter.com/familybankkenya

Family Bank is regulated by the Central Bank of Kenya

CORPORATE INFORMATION

DIRECTORS	
Non-Executive	Dr. Wilfred D. Kiboro - Chairman Mr. Francis G. Mungai - Vice Chairman Mr. Titus K. Muya Mr. Lazarus Muema Ms. Mary N. Mburu Dr. Ruth Waweru- Retired 29th June 2021 Mr. Lerionka S. Tiampati - Retired 2nd November 2021
Executive	Ms. Rebecca Mbithi - Managing Director & Chief Executive Officer
COMPANY SECRETARY	Eric K. Murai Certified Secretary 8th Floor, Family Bank Towers, Muindi Mbingu Street P.O. Box 74145 - 00200, Nairobi Tel: 254-703 095 000/ 703 095 445 Fax: 254-2-318174 Email: info@familybank.co.ke Website: www.familybank.co.ke
REGISTERED OFFICE	Family Bank Limited 8th Floor, Family Bank Towers, Muindi Mbingu Street P.O. Box 74145- 00200, Nairobi Tel: 254-703 095 000/ 703 095 445 Fax: 254-2-318174 Email: info@familybank.co.ke Website: www.familybank.co.ke
AUDITOR	PricewaterhouseCoopers LLP Certified Public Accountants PWC Tower, Waiyaki Way/Chiromo Road, Westlands P.O. Box 43963-00100 Nairobi, Kenya
LEGAL ADVISERS	Mboya Wangong'u & Waiyaki Advocates Lex Chamber, Maji Mazuri Road Off James Gichuru Road Nairobi, Kenya
CORRESPONDENT BANKS	Deutsche Bank AG London 6 Bishopsgate London EC2P 2AT United Kingdom DZ Bank AG 0265 Frankfurt am Main Deutsche Bank Trust Company Americas P O Box 318, Church Street Station New York, New York 10008 – 0318 Standard Bank of South Africa 184, Hyde Lane Sandton 2196 South Africa

BOARD COMMITTEES

Credit Committee	Mr. Francis Mungai - Chairman Mr. Titus K. Muya Dr. Wilfred D. Kiboro Ms. Rebecca Mbithi
Audit Committee	Mr. Lazarus Muema - Chairman Ms. Mary N. Mburu
Risk Management and Compliance Committee	Ms. Mary N. Mburu - Chairperson Mr. Lazarus Muema
Human Resource Committee	Mr. Francis Mungai - Chairman Mr. Titus K. Muya Dr. Wilfred D. Kiboro Ms. Mary N. Mburu Ms. Rebecca Mbithi
Strategy Committee	Mr. Lazarus Muema - Chairman Mr. Titus K. Muya Dr. Wilfred D. Kiboro Ms. Mary N. Mburu Ms. Rebecca Mbithi
Projects Committee	Ms. Mary N. Mburu - Chairperson Mr. Titus K. Muya Mr. Francis Mungai
Nomination and Governance Committee	Dr. Wilfred D Kiboro - Chairman Mr. Titus K. Muya Mr. Francis Mungai

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www.twitter.com/familybankkenya

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BOARD OF DIRECTORS

Dr. Wilfred D. Kiboro, EBS
Chairman, Non-Executive Director

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

Dr. Kiboro has received various accolades including being a Member of the International Who's Who of Professionals, and he is a past Chairman of several organisations, including the Media Owners Association, the East African Business Council, the International Press Institute Board, the Federation of Kenyan Employers, and the Standard Chartered Bank, Kenya. He has also served on the Boards of the Kenya Association of Manufacturers, the National Environmental Management Authority (NEMA) and East African Breweries Limited among others.

Arch. Francis Gitau Mungai
Vice Chairman, Non-Executive Director

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

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

Mr. Titus K. Muya
Non-Executive Director

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

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

Mr. Lazarus Muema
Non-Executive Director

Mr. Muema holds a Bachelor of Commerce Degree from the University of Nairobi and is a Certified Public Accountant (CPAK). Lazarus was appointed to the Family Bank Board in 2017. He is a highly respected professional in the Finance/Pensions sector with experience spanning over 30 years, having held senior positions in multinational corporations both in Kenya and Europe. He has been a Finance Manager at Shell Exploration in Kenya and Shell Uganda, a financial controller at Kenya Shell and a finance advisor at Shell International London, rising through the ranks to the position of the Pensions Investment and Policy Advisor for Africa by the time he left in 2011. Currently, he is a pension consultant with Penplan Services Limited, a Pensions Consultancy Firm that he founded in 2011.

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

Ms. Mary Njeri Mburu
Non-Executive Director

Ms. Mburu was appointed to the Board of Family Bank in October 2020. She holds a Masters degree in Business Administration (MBA) from United States International University 1994, a Bachelor of Science degree in Agriculture from the University of Nairobi.

She is currently pursuing a Doctorate in Business Administration (DBA) in Global Supply Management. Professionally, Ms Mburu is also a Certified Contracting Officer Representative (COR) in Project Management.

Ms. Mburu has worked as a Senior Acquisition and Assistance Specialist (Senior A&A Specialist) at USAID overseas Missions designated as a Third Country National (TCN) for six years. Before her overseas assignment, she worked at USAID Regional Mission in Nairobi for 7 Years as an Acquisition and Assistance specialist (A&A Specialist).

Ms.Mburu has vast experience in Project Management in Economic Growth, Education, Governance and Infrastructure. Previously, Mary worked for the Kenya Pipeline Company as a Senior Officer in Procurement.

Ms. Rebecca Mbithi
Managing Director and
Chief Executive Officer

Rebecca holds an MBA with a concentration in Strategic Management from USIU and an LL. B degree from the University of Nairobi. She is a CPA and a member of the Institute of Certified Public Accountants of Kenya, a Certified Secretary and a Member of the Institute of Certified Secretaries, an advocate of the High Court of Kenya and a member of the Law Society of Kenya. In addition, she is a Certified Executive Coach. She joined Family Bank in January 2015, taking on the role of Company Secretary & Director, Legal Services.

Rebecca was appointed CEO of Family Bank in February 2019. She is a seasoned professional and a respected lawyer with an extensive leadership background in various organisations, having previously worked at Kenya Tea Development Agencies, where she served as Head of Legal and Regulatory Affairs and Rift Valley Railways, where she served as the Company Secretary & Legal Counsel. She has vast domain expertise and knowledge in law, project finance, corporate restructuring, equity/debt raising and governance, and has served in the Corporate Governance and Standards Committee of the Institute of Certified Secretaries Kenya.

Mr. Eric K. Murai
Company Secretary and
Chief Legal Officer

Eric holds a Master of Laws (LL.M) and a Bachelor of Laws (LL.B) from the University of Nairobi and a BSc. In Applied Accounting from Oxford Brookes University. He is an advocate of the High Court of Kenya, a member of the Law Society of Kenya and a member of the Institute of Certified Secretaries. He is also a certified professional mediator.

Eric is the Company Secretary and Chief Legal Officer. He was appointed Company Secretary and Head of Legal Services in October 2019.

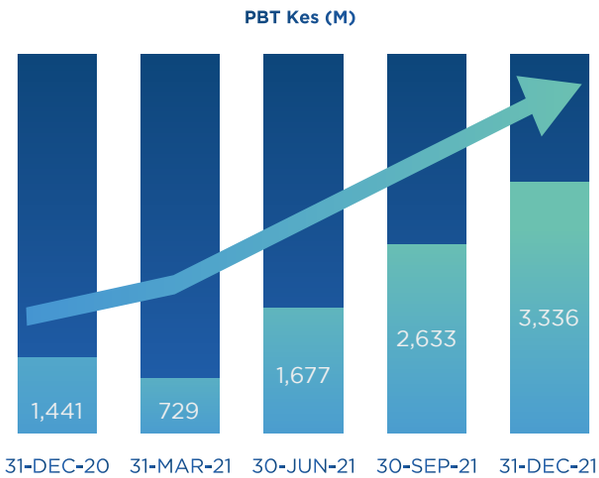
Eric is an experienced in-house counsel and corporate governance professional, having previously worked as the Assistant Company Secretary at Britam Holdings Plc and as Legal Counsel at Standard Chartered Bank Kenya. He has vast experience in banking and finance law, corporate finance projects and corporate governance and regulatory compliance.

CHAIRMAN'S STATEMENT

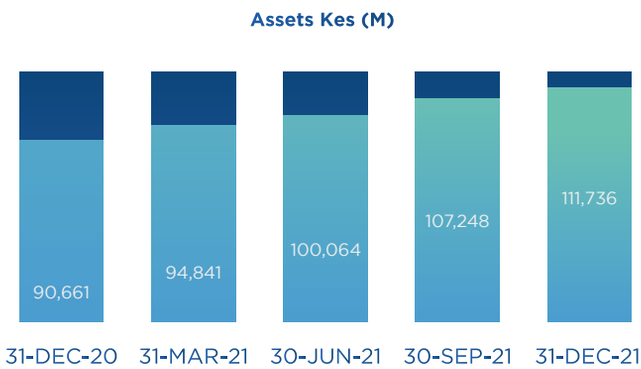
Dear Shareholders,

On behalf of the Board of Directors of Family Bank Group, I am pleased to present the Annual Report and Financial Statements for the year ended 31st December 2021.

We continue to record improved financial performance as witnessed in our full year 2021 results. To highlight, Family Bank Group registered a Profit Before Tax (PBT) of KES 3.3 billion, marking a 132% growth in earnings compared to the same period in 2020. The growth in earnings was largely driven by an increase in interest income, increase in non-funded income coupled with a reduction in the loan loss provisions.



The Group's balance sheet expanded by 23% to KES 111.7 billion from KES 90.7 billion recorded in 2020. Loan loss provisions , reduced by 52.5% from KES 1.6 billion to KES. 768.2 million in 2021 as the Bank continued to focus on the loan quality and collections.



Banking Sector Performance

2021 was a year of recovery and resilience for the financial services industry. The Kenyan economy rebounded strongly in 2021, following the easing of Covid-19 restrictions and the impact of both government and private sector interventions. The industry continues evolving and this will be mainly driven by the changing consumer needs, heightened competition, evolving regulations, and advancements in technology as we take up the lessons learnt from the pandemic.

According to the Central Bank of Kenya, the banking sector registered a strong performance in the year ended December 31, 2021, with the asset base increasing by 11.1% from KES. 5.4 trillion at end of 2020 to KES 6 trillion, a performance underpinned by financial institutions reviewing business models leveraging on technology and innovation, enhanced capital and liquidity buffers. This was also driven by the strong recovery of the services sector particularly transport and storage, education, information and communication, wholesale and retail trade, and the improved performance of the manufacturing and construction sectors.

Dividends Pay-Out

On the back of the strong performance and improved liquidity, the Directors proposed a KES 1.1 billion dividend pay-out, KES 0.83 per share, subject to Shareholders' approval.

On behalf of the Board, I would like to thank you the shareholders for your patience, understanding and continued trust in our decisions over the years as we strike balance between returns and capital maximization.

Chairman's Statement (continued)

Return to the Corporate Bond Market

2021 saw the Bank return to the corporate bond market with the market having been without new issues over the recent years. In April 2021, the Bank paid back the maturing five and half years (5 and ½ year) Medium Term Notes (MTN) worth KES 2.0188 billion issued in 2016, we also embarked on a KES 8 billion Medium Term Note program whose first tranche raised KES 4.42 billion, a subscription of 147.3%, against a KES 3 billion. The Bank exercised the greenshoe option of KES 1 billion which was available on the issue and raised KES 4 billion officially commenced trading at the Nairobi Securities Exchange.

Currently, the Family Bank bond is one of the four bonds in the market, a sure sign of the confidence the market has placed in the Bank. The funds from this bond will help strengthen our balance sheet and capital ratios as we set to become a top tier lender in the banking sector. We would like to thank our investors for overwhelmingly subscribing to the Corporate Bond.

Corporate Governance

We had board changes in 2021. Our Board Vice-Chair Dr. Ruth Waweru retired in June of 2021 after serving on the Board for 10 years. Her entrepreneurial skill and corporate governance background have been instrumental in key board decisions that have steered the Bank forward.

Our Non-Executive Director Mr. Lerionka S. Tiampati also retired in November last year having dedicated this resolute support, time and commitment to the Bank since joining the Board in 2013. We thank the retiring Board members for their invaluable contributions to the Bank.

As a Board, we remained committed to steering good corporate governance principles through the entrenchment of value-driven corporate governance culture throughout the organization.

Future Outlook

In 2022, the global economic outlook is expected to be affected by elevated inflation, soaring energy prices and the re-emergence of the Covid-19 variants in China and other parts of Asia. The Ukraine and Russia conflict has led to trade constraints as the two countries are huge exporters of various commodities across the globe. These factors are bound to lead to a relatively stronger US dollar, increased commodity prices and volatile financial and capital markets.

Looking into Kenya, the inflation rate in 2022 is projected at 5.8 % and the GDP growth is estimated at 6% given key economic indicators like the rising interest rates, the exchange rate due to the pressure the Kenya Shilling faces, overall inflation due to high cost of living and high public debt.

2022 is also an election year and traditionally, this is a very unpredictable season for the business environment.

For 2022, as we implement the mid-year of our 2020-2024 strategy, the Bank's key parameters around organic forms of growth include stronger balance sheet profitability, a strong brand presence with a competitive offering, a well-capitalized and stable bank with local expansion within the counties that we do not have a presence in. Inorganic growth will be focused on exploring options around acquisition and mergers and regional expansion within the larger East African community.

To support our growth strategy, we are working with finance partners in order to extend credit to various segments such as agri-business, women-led and owned SMEs, climate-friendly investments, the education sector, health sector, among other sectors. Currently, we have drawn funding from African Guarantee Fund, Eco.business Business Fund, Blue Orchard, Inconfin, ResponssAability Investments AG and the European Investment Bank. We are in discussions with other various partners whose support will allow us to continue serving our customers and extend to others within our focus sectors.

Acknowledgements

On behalf of the Board of Directors, I take this opportunity to thank our customers and shareholders for their support and confidence in the management of the Bank and its growth strategies. We are deeply humbled and highly indebted for this unwavering support.

I sincerely thank and highly appreciate the Bank's management and for their dedicated service and achievement in implementing successful sustainable strategies in a dynamic and competitive banking environment during the year.

I would also like to extend my appreciation to all our employees across the Bank for their tremendous effort under the circumstances witnessed in 2021, without whom the Bank could not have accomplished such year-on-year stellar performance.

I am certain that with continued focus, clarity of strategy and support of all stakeholders the year ahead will be even more promising and brighter for the Bank.
Thank you.

Dr. Wilfred D. Kiboro
Chairman- Board of Directors

STATEMENT FROM THE CEO

> 2021 was a recovery year for the Bank. Our overall growth demonstrates the Group's resilience and recovery of our customers from the COVID-19 pandemic effects. In 2021, we continued to support our customers, increased and accelerated loan disbursements and achieved growth in all our key parameters.

Family Bank's Corporate Bond Commences Trading at the NSE

Dear Shareholders,

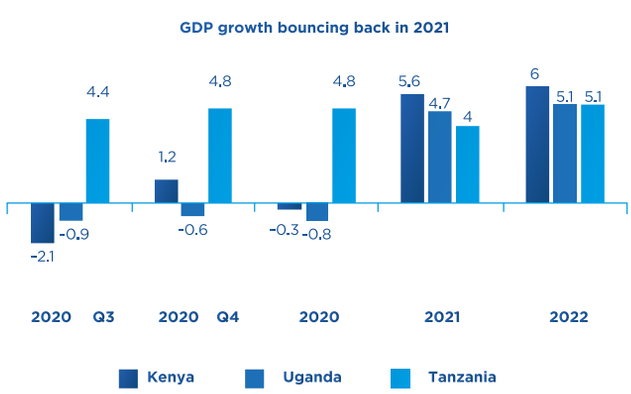
2021 was a recovery year for the Bank having weathered one of the most unprecedented and challenging periods brought about by the COVID-19 pandemic. The Bank continued to support our customers, increased and accelerated loan disbursements and achieved growth in all our key parameters.

Furthermore, we continued to provide innovative products and superior customer experience which has seen our customers recognize us as the Best Overall Bank and best Tier Two Bank in Customer Responsiveness and Digital Experience in 2021 during Kenya Bankers Association Awards.

I would like to express our appreciation to our shareholders and our customers for the confidence you have in this Bank, your unmatched commitment and the unwavering support that you continue to accord us at all times.

The Banking Environment

The banking environment in Kenya has also experienced growth with key conversation drivers for the banking sector including the regional expansion through mergers and acquisitions with KCB completing the acquisition of Banque Populaire du Rwanda Plc (BPR) and I&M Bank completing the acquisition and rebranding of Uganda's Orient Bank Limited (OBL) to I&M Bank (Uganda). The sector has also played a central role in conversations centered on climate change, in specific, green financing which saw the Central Bank of Kenya issue guidance on climate-related risk management aimed at enabling banks to integrate climate-related risks into their governance, strategy, risk management and disclosure frameworks.



CEO's Statement (continued)

On the global front, the world economy continued to grapple with the effects of COVID as we witnessed the rollout of vaccines in a bid to contain the pandemic. The I.M.F. adjusted the global growth forecast from 5.5% to 6%, after a 3% contraction in 2020, mainly driven by the vaccination drive efforts that are expected to help fuel a sharp rebound in economic activity.

Performance Overview

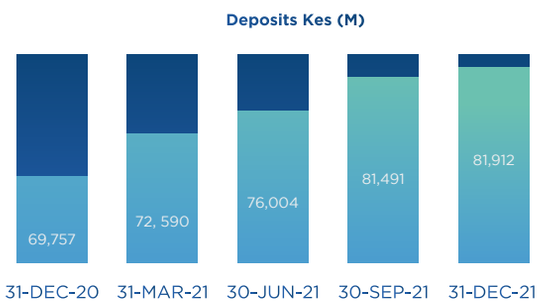
Our Profit Before Tax for the Group for the Full Year 2021 stood at KES 3.3 billion against KES 1.4 billion registered in 2020, a 132% growth. As at end of December 2021, Profit After Tax stood at KES 2.3 billion, representing a 42% growth in earnings compared to the same period in 2020. Earnings Per Share grew by 84.4% to KES 1.66 at end of 2021.

In line with this, on the back of the strong performance, the Board of Directors have recommended KES 1.1 billion dividend payout for the year ended 31 December 2021 subject to shareholders' approval during this Annual General Meeting.

In KES Billion	2020	2021	Change
Customer deposits	69.8	81.9	17.4%
Loan book	56.6	66.9	18.2%
Total assets	90.7	111.7	23.3%
Investment in government securities	1.5	2.3	59.6%
Net interest income	6.4	7.8	20.8%

Customer Deposits

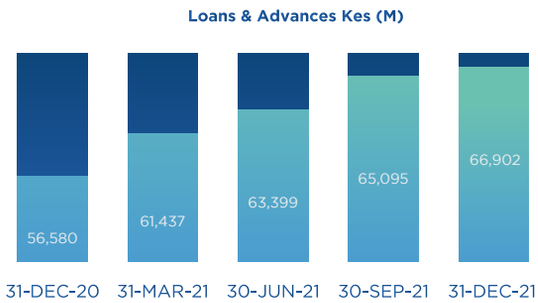
Our customer deposits recorded a growth of 17.4% in 2021 compared to 2020 standing at KES 81.9 billion supported by an aggressive deposit mobilization strategy for retail, institutional, corporate and public sector markets.



Loans Advanced to Customers

In 2021, our loan book expanded by 18.2% year on year to close at KES 66.9 billion as we continue to increase and accelerate loan disbursements to our customers in Micro, Small and Medium-Sized Enterprises, retail, agricultural, construction and real estate, among other sectors.

During COVID, we restructured customer loans worth KES 16.5 billion. As of the end of 2021, 95% of our customers are now able to repay loans and only 5% of our customers are on an extended moratorium. This is a testament that the economy's outlook is positive with the containment measures that the Government is implementing.



Operating Expenses

The Group's operating expenses decreased by 2.8% to KES 7.4 billion from KES 7.7 billion mainly driven by prudent management of operating costs and a reduction in loan loss provisions. Loan loss provisions were reduced by 52.5% from KES. 1.62 billion in 2020 to KES 768.2 million in 2021.

Total Assets

In 2021, the Group's total assets grew by 23% to close at KES 111.7 billion compared to KES 90.7 billion recorded in 2020.

Capital Position

The Bank continues to maintain healthy positioning on its capital ratios above the minimum regulatory requirement. Liquidity stood at 43.4%, significantly above the minimum requirement of 20%. The core capital ratio closed at 20.9% above the statutory requirement of 14.5%.

Key Reasons behind the Success

In 2021, we focused on driving product innovation, customer experience across digital and in-branch services, branch network expansion, cost-efficiency strategies and also brand drive through the 'Fuzu na Family' brand campaign.

Innovation and Digitization

We continue to leverage innovation and digitization to enhance our customers' experience across digital and in-branch services as we drive financial inclusion through ease of access to finance and capital, a critical growth factor. Our mobile application, PesaPap and our other digital payment platforms including internet banking continue to be pivotal in the growth of the Bank as a whole.

CEO's Statement (continued)

The Team Behind the Performance

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

Products, Services and Partnerships overview.

- KBA Customer Satisfaction Survey – In 2021, Family Bank was voted as the Best Overall Bank and Best Tier Two Bank for Customer Responsiveness and Satisfactory Digital Experience. Previously in 2020, the Bank was voted Best Tier Two Bank and the overall second-best bank in Digital and Customer Experience in the Kenya Bankers Association Customer Satisfaction Survey.

Family Bank emerges best overall bank in the KBA Customer satisfaction survey

- Nation Leadership Forum – The Bank participated in the Nation Media Leadership Forum discourse in February 2021 under the theme Recovery of the Economy – Financing SMEs. Family Bank Chief Retail Officer participated in one of the panel sessions.

- Eastleigh Branch Opening – In February 2021, Family Bank opened in 92nd branch in Eastleigh, one of the fastest-growing business hubs in Kenya and the East African region that serves as a key commercial hub to many Micro, Small and Medium-size enterprises (MSMEs), who form the backbone of the Kenyan economy.

Family Bank opens it's 92nd Branch in the heart of Eastleigh

- Ndumberi Dairy Farmers Cooperative Society Partnership – In March 2021, Family Bank in partnership with Performeter signed a multimillion deal to finance fodder acquisition for Ndumberi Dairy Farmers Cooperative that will see 1000 Ndumberi dairy farmers under the region's co-operative society access quality fodder to double their milk yield to 30,000 litres per day.

- Nation Media Group SME Conference and Expo – Family Bank participated as a speaker and as an exhibitor during the two-day NMG SME Conference and Expo. Family Bank Chief Executive Officer participated in one of the panel sessions that was live on NTV.

- UN Global Compact –Family Bank joined the United Nations Global Compact network in March 2021 underscoring its commitment to undertaking sustainable and responsible business to advance inclusive development. Family Bank became the fourth bank to commit to building a sustainable business in Kenya.

- Bond Redemption – The Bank successfully redeemed its five and half years (5 and ½ year) Medium Term Notes (MTN) worth KES 2.0188 billion in April 2021.

- Bond Issuance – In June 2021, the Family Bank bond raised KES 4.42 billion, marking a subscription of 147.3%, against a KES 3 billion target with a greenshoe option of KES 1 billion in its first tranche of the corporate bond offer via public placement. This is to increase lending to MSMEs and strengthen our capital base as we heavily invest in technology.

- Palladium Partnership – Family Bank entered a KES 500 million partnership with Palladium to finance agri-business in 17 counties through an initiative dubbed 'Pay for Performance' under USAID's Feed the Future Program. The bank targets to provide financing across dairy, horticulture, livestock and energy for agriculture value chains across Homa Bay, Migori, Kisii, Kisumu, Siaya, Kakamega, Bungoma, Busia, Vihiga, Kitui, Makueni, Taita Taveta, Isiolo, Marsabit, Turkana, Garissa and Wajir counties. In December 2021, Family Bank received an additional KES 6 billion to extend affordable credit to agribusinesses across 17 counties through USAID's Kenya Investment Mechanism.

- KBA Inua Biashara Day – Family Bank participated in KBA's Inua Biashara Virtual Summit on 25th June 2021 to mark the International Day of Micro, Small and Medium-Sized Enterprises. This is a crucial event that provides the Association with an opportunity to drive the discourse on the various interventions set up by banks to support the SME sector in their pursuit of navigating the headwinds of the health crisis. The Family Bank Chief Executive Officer was a key guest speaker for this forum.

CEO's Statement (continued)

- KAM Global Compact CEO Forum – The Kenya Association of Manufacturers and Global Compact Network Kenya hosted a CEO Forum on Mainstreaming Sustainability in the Manufacturing Sector through a Principles-Based Approach in June 2021. Family Bank CEO participated in the panel session.

- Central Police Station Refurbishment – In partnership with the National Police Service, Family Bank completed a KES 3 million renovation of the Nairobi Central Police Station in July 2021 to enhance the service delivery of the Police to members of the public, enable a better working environment for the servicemen and women at Central Police Station while creating a friendlier people-centred station.

- Isiolo Branch Opening – FamilyBank expanded its branch network to 93 branchesacross the country in September 2021with the opening of a new branch in Isiolo Countybringing services even closer to customers in the marginalized Northern part of Kenya. This brings the total number of branches to 93 as of the end of 2021.

-

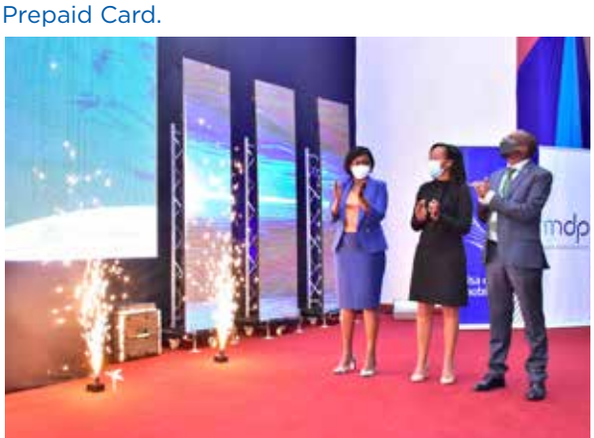
Family Bank opens it's 93rd Branch in Isiolo

- Kenya Bankers Association Annual Banking Research Conference – Family Bank participated in the 10th annual KBA Banking Research Conference in September 2021 which seeks to bring together banking professional sand researchers drawn from various institutions to redefine and recalibrate the banking and financial sector.

- African Business Leadership Awards – Family Bank CEO was awarded the African CEO of the Year Commendation Award by the African Leadership Magazine for the African Business Leadership Awards 2021 in September 2021. The African Business Leadership Awards (ABLA) is a prestigious recognition event to reward exceptional corporate practices and outstanding achievers in Africa's business landscape and its private sector.

- European Investment Bank (EIB) Business Roundtable – In November 2021, Family Bank participated in EIB's Business Roundtable that brought together business leaders in the banking and finance sector at Sankara Hotel in Westlands.

- Prepaid Cards Launch – In November 2021, Family Bank launched a series of prepaid cards targeting, among others, the youth and traders in the ever-growing e-commerce trade with China allowing customers to transact in multiple currencies including the Yuan. The cards include Student Cards targeting pre-teens and teenagers, Youth Card targeting tech-savvy youth aged between 18 and 25 years, Multi-Currency Forex Card for traders, travellers, Diaspora and business community and the General Purpose Family Bank Prepaid Card.



Launch of Family Bank Prepaid Visa Cards at Daystar University, Nairobi Campus

- Public Relations Society of Kenya Annual Awards – Family Bank received two awards; Financial Communication Campaign of the Year and Overall Public Relations Campaign of the Year at the 2021 Public Relations Society of Kenya Annual Awards for Excellence for the Corporate Bond Campaign where the Bank raised KES 4.42 billion via public placement marking a subscription of 147.3%.

- Kenya Commercial Forestry Investment Conference and Expo – Family Bank participated in this three-day conference held at KEFRI Headquarters in November 2021 under the theme: Commercial Forestry Investment for Wealth Creation, Boosting Manufacturing, Food Security, Health and Attainment of 10% Tree Cover in Kenya.

Looking Forward

The growth outlook is positive. The economy is projected to grow by 5.9% in 2022 compared to 5.0% in 2021.

With the full reopening of the economy, ongoing implementation of the Economic Recovery Strategy and the aggressive vaccine rollout campaigns, the focus is on supporting the recovery of our customers.

2022 marks the mid-year of our aggressive five-year strategy dubbed Take-Off for implementation between 2020 and 2024. We remain focused on our transformation program to optimally gain size and scale efficiently and early signs of success are evident. Looking ahead, our focus is on digital transformation, fundraising to support our growth plan, regional and local expansion, partnerships with FinTech companies that will catapult our growth as we seek to build an ecosystem that drives value to our customers, their businesses and their business operations systems as we build towards Tier 1 status.

We continue to deploy new products and services while leveraging technology, build lasting relationships with our customers through customer experience, deliver brand differentiation by driving consistent consumer engagement through brand campaigns among other initiatives and staff training and development for competitive advantage and equip staff to better support our strategy.

I would like to thank our shareholders, customers, strategic partners, Family Bank Board of Directors, Senior Management and staff for the unwavering support and dedication to the Family Bank brand and for always working together towards enabling people to create and sustain wealth through access to flexible, affordable financial services.

Thank you and God bless you.

Rebecca Mbithi
Managing Director and Chief Executive Officer

PERFOMETER
DAILY GROWING DAIRY

POWER YOUR DAIRY ENTERPRISE

We have partnered with Perfometer to ease your access to affordable and quality Fodder.

- Easy & Stress Free financing for dairy farmers, Dairy cooperatives and Fodder producers.
- Technical support in animal nutrition.

Visit any of our branches countywide for more information.

Family Bank
With you, for life

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Family Bank is regulated by the Central Bank of Kenya

Sustainability Report **2021**

Because you can always bank on

Family

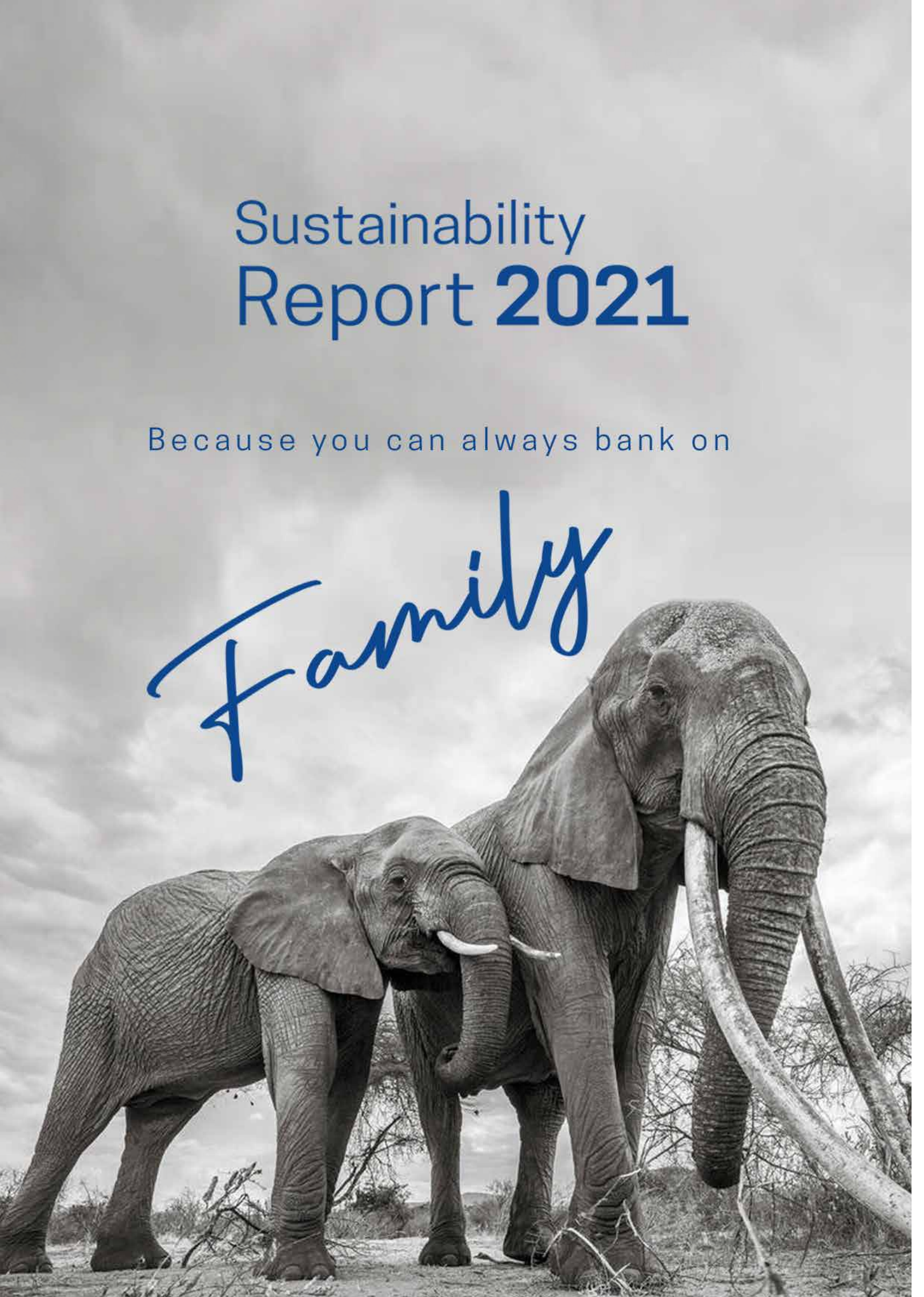


TABLE OF CONTENT

About this report	27
Family Bank at a Glance	28
Our Stakeholders	31
Material Matters	33
Financial Inclusion	34
Talent Management and Diversity	36
Ethics and Integrity	37
Empowering Communities	39
Education	39
Sports	42
Environmental Footprint	43
Product Development and Digital Innovation	44
Service Excellence	45

ABOUT THIS REPORT

Welcome to our 2021 Sustainability Report. Family Bank's approach to sustainability involves transforming people's lives by helping people, families and businesses to thrive.

The aim of the Sustainability Report provides an overview of how Family Bank has fulfilled its sustainability mission during the reporting period of 1st January 2021 to 31st December 2021 and how it plans to implement and improve its sustainability performance in the future.

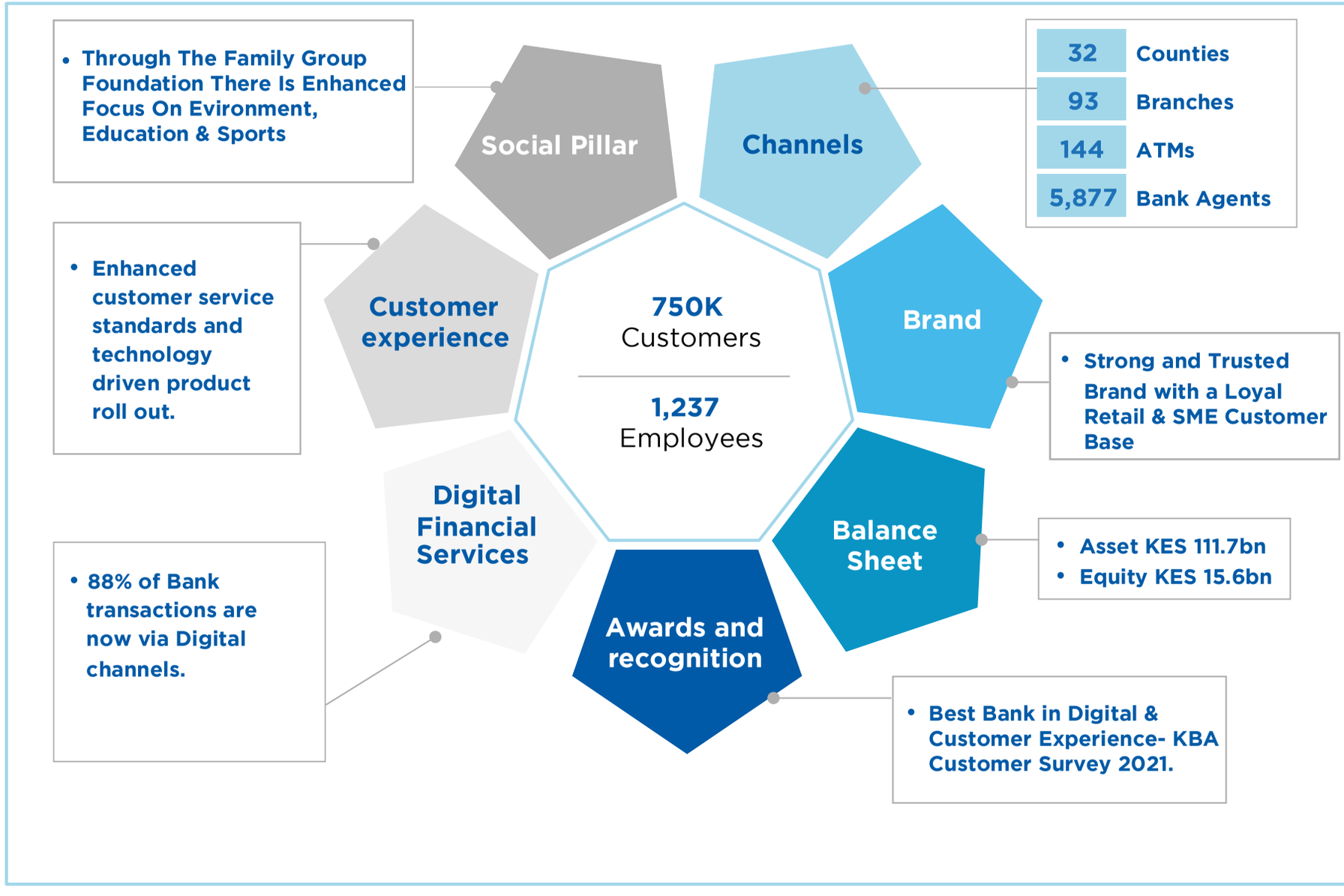
The report is structured around our three strategic pillars:

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

As Family Bank, we aspire to be at the center of society and act as a responsible corporate citizen. Our commitment to the common good and our progress in sustainability both show that the strategic transformation of our bank is about more than bottom-line profit – even if running a successful business is the basis on which we operate. It is about what our bank stands for.

The topic of sustainability has gained momentum, and financial institutions are playing a central role in reorienting capital flows towards a more sustainable economy. On the one hand, investors are demanding increasingly frequent information about what their assets are used for and the positive impact of their investments on the environment and social issues. On the other hand, there is growing customer demand for products and services that combine social, environmental and economic criteria.

Family Bank at a Glance



RESILIENCE IN THE NEW NORMAL

Covid-19 Pandemic

The ongoing pandemic continues to pose challenges to the global economy, deeply affecting the lives and livelihoods of the people. In 2021, vaccinations were introduced and government efforts were taken to rally and educate the importance of vaccinating in order to contain the disease, while the vaccination rates continued to increase and Covid-19 related restrictions were lifted towards the end of 2021, a new wave of infections was witnessed.

Uncertainty concerning the ongoing pandemic remains and we, therefore, continue to be cautious and remain ready to support and assist our stakeholders; whether it is our customers, our employees or society at large. We have taken measures to support our stakeholders in alleviating the pandemic impact while ensuring our employees are being taken care of as we continue to serve our customers.

Family Bank CEO Rebecca Mbithi presents TSC Director of Administrative Services Ibrahim Mumin with face masks worth Sh250,000 as part of the Bank's CSR and efforts to fight COVID-19

Employees

Our employees are our family and we continue to protect their health and wellbeing:

Our Response

- We continued with the Bank's robust Business Continuity Plan (BCP) aimed at driving operational efficiency and sustaining both staff and customers' health and safety across our branches.
- We have continued to empower our employees by doing virtual trainings and e-Learning modules.
- Collaborated with the Ministry of Health to deliver doses of COVID-19 vaccines for staff and their immediate families.
- Provision of masks, sanitizers and thermal guns at all branches and offices countrywide.
- Identification of back-up/alternate staff for branch relief in case a positive case is identified.
- Periodic reminders to staff on health measures to minimize community spread within the bank.
- Zoning and use of alternate sites to ensure social distancing amongst staff

Customers

Our customer base consists of both individuals and businesses (big and small) who in turn employ thousands of Kenyans. To support and cushion against the negative effects of the pandemic. We continued to implement measures to help them get through;

Our Response

- Simplified processes and introduced new digital innovations to safeguard the well-being of our cus tomers, encourage the use of our digital channels for payments and various transactions and in turn reinforcement of our cyber security framework.
- Continued to provide relief assistance and extensions of loans to affected customers.
- Frequent fumigations at our physical branches and frequently sanitization of common touchpoints within our buildings.
- Provision of sanitizers at all bank entry points.

Community

The banking industry plays a vital role in supporting the nation and its people to recover from the adverse effects the pandemic befell us. For Family Bank, this meant focusing on what we do best; providing services and transforming people's lives. We have provided significant financial resources to support the collective efforts to recover on a national level.

Our Response

- The Bank continued supporting different CSR activities and initiatives, towards supporting the fight against COVID-19.
- Financial literacy and skill up-gradation through webinars for SMEs.

Banking in a post C0VID world

It is still not yet clear what the post COVID world will look like, however, we are continuing to innovate our products and services to enable us to be ready for what the future may hold. In 2021, we continued to focus on accelerating and innovating digital services and ensuring business continuity plans were updated and in place.

A lot has been learned in the past two years regarding the Bank's strength and its agility to quickly adopt to the new norm, mitigate challenges posed to the Bank, society and economy. We have continued to draw from the positives and learnt from the lessons to ensure that we remain relevant, fit and resilient for the future.

OUR SUSTAINABILITY APPROACH

Stakeholder Engagement

We are committed to engaging regularly with our stakeholders as a way to sustain, build relationships, understand their needs and meet their expectations. Maintaining long-term relationships and cultivating strong bonds between Bank and its stakeholders are at the heart of how Family Bank makes change happen: by putting people first.

Below, we highlight who our key stakeholders are and some examples of how we collaborate with them to create value:

We continue to place great value on our stakeholder's opinions through diverse communication platforms, and thus review and improve our sustainability performance to better fulfil our responsibilities and commitments to stakeholders.

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

	Stakeholder	Engagement Methods	Key Concerns
	Investors	• Investor Briefings/Relations • Annual General Meetings • Annual Integrated Reports	• Financial Performance • Business growth prospects.
	Customers	• Service & Communications Channels. • Feedback Channels Customer satisfaction surveys • Annual Integrated Reports • Media	• Exceptional Customer Experience • Protection of their personal data. • User friendly systems and easily accessible banking products and services.
	Employees	• Internal Communications Channels • Employees opinion surveys • Internal Customer Satisfaction Survey	• Learning, training, compensation, growth, development and retention.
	Communities	• CSR Activities and Initiatives. • Focus Groups and Surveys • Media	• Respond to societal needs environmental, social and governance matters.
	Regulators and Government	• Regulatory Reporting & Audits • Compliance with Regulators	• Creating long-term socio-economic impact.
	Suppliers	• Tenders & RFP • Contracts	• Fair suppliers' selection process • Supplier diversity
	Media	• Interviews • Media/Press briefing • Corporate events and launches • Financial reports	• Media briefings • Updates on Bank's information/news

Family Bank Material Issues and Sustainable Development Goals

Family Bank plays a significant role in contributing to the Sustainable Development Goals (SDGs). Since 2017, we have been connecting our reporting to the SDGs, 17 global goals set by the United Nations General Assembly in 2015 where the world leaders promulgated the Sustainable Development Goals (SDGs) after the Millennium Development Goals (MDGs) period ended.

While our work covers almost all the SDGs, we will refer to the ones we specifically contribute to and are considered important by our stakeholders. In this report, we have identified six SDGs that have been outlined in more detail as high impact areas of how our activities and sustainable approach relate and contribute to and take into account the business environment in which we operate.

United Nations Global Compact Membership

Family Bank enlisted into the membership of the United Nations Global Compact network and is the 4th Commercial Bank in Kenya to join the network. This membership reaffirmed our commitment towards building a sustainable and responsible business to advance inclusive development and corporate sustainability in Kenya. For long-term business growth and positive social impact, Family Bank will benchmark against global practices and access technical guidance and thought leadership from the United Nations Global Compact network.

The membership into the United Nations Global Compact is in line with Family Bank's 2020 – 2024 Strategic Plan, dubbed 'take-off' that is aligned to the United Nations Sustainable Development Goals (SDG) and the United Nations Environment Programme (UNEP) Finance Initiative on Responsible Banking and Sustainable Financing aimed at delivering value and creation of a sustainable future for all.

Family Bank joined more than 10,000 member companies in over 160 countries that are aligning their operations and strategies to universal principles on Human Rights, Labour, Environment and Anti-corruption. This membership facilitates Family Bank to take strategic action towards broader societal goals using a principle-based approach to significantly contribute to the attainment of the global Sustainable Development Goals (SDGs) by 2030.

Founded in 2000 as a special initiative of the United Nations Secretary-General, the United Nations Global Compact is a call for private sector companies globally to align their operations and strategies with the Ten Principles in the areas of Human Rights, Labour, Environment and Anti-corruption.

United Nations Global Compact Kenya Network Executive Director, Judy Njino hands over the membership certificate to Family Bank CEO Rebecca Mbithi.

Focusing on what matters

Family Bank's sustainability efforts and priorities are informed by the wider environmental and social context in the areas in which we operate. Below are the material topics identified by the Bank that are important to our stakeholders and significant to our business.

Financial Inclusion

Financial inclusion remains a core pillar on our sustainability agenda to drive inclusion and transform people's lives by providing access to fair and transparent financial services to our customers and the unbanked. Bringing people into the financial system spurs societal and economic progress by ensuring that we are continuously innovating inclusive digitally anchored products and services that offer convenience, security and affordability.

The last decade has seen enormous growth in digital technology and with this has brought about immense opportunities for financial inclusion to the fore. In 2010, Family Bank was the first bank to introduce mobile banking in Kenya through the pioneer digital banking platform- PesaPap. We have continued to support and invest in technology expanding our digital offering so that our customers can conduct banking services anywhere and at any time.

Our Digital Transformation

Since the launch of the Bank's strategic plan 'Take Off', digital banking became an increasingly important area of focus to the Bank, we noted an acceleration of digitization during the pandemic and this positioned us well to leverage on the existing systems in speeding up our digitization efforts when movement restrictions kicked in.

Digital Strategy

Our digital channels allow customers to carry out their financial transactions uninterrupted while keeping everyone safe. We have noted a steady increase in the adoption of our digital offerings across the Bank as a testament to our success where 83.5% of our transactions are now on digital. This migration attests to the effectiveness of our efforts and further drives us to continuously cater to the growing digital demands of our customers.

In 2021, our digital offerings have effectively allowed our customers to adopt the digital banking/financing for their convenience and safety. The following figure shows the total number of transactions:

Highlights: Transactions Kes (M)

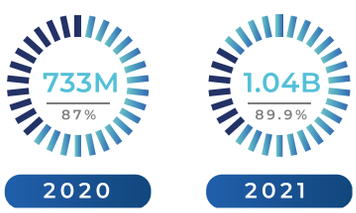
Channel	2020	2021
Mobile	335M	577M
Agency	80M	126M
ATM	130M	130M
Card	61M	82M
Debit C.A	70M	68M
Internet	18M	29M
Acquiring	15M	23M

Seamless Digital Customer Experience

The pandemic necessitated the creation of banking solutions that provide a seamless experience for our customers, providing a more convenient, secure and easily accessible banking service while keeping them safe. For instance, we revamped and redesigned PesaPap mobile banking in 2020 with an enhanced user interface that delivers a more streamlined user experience.

We continued to review our customers' use of digital services and the volume of digital transactions to determine if our offering is effective. In 2021, the total number of customers utilizing our channels increased by 42%. Moving forward, the Bank's goal is to achieve an adoption rate of 94% by FY2022.

YOY GROWTH IN TRANSACTIONS



Talent Management and Diversity

At Family Bank, we believe that maintaining a diverse and fair working culture is key to encouraging diversity of thought and perspectives, which will drive innovation and enable our teams to produce better value for our stakeholders.
We encourage the success of our workforce by providing them with equal opportunities, competitive compensation packages and a safe and talent nurturing environment.

The Bank remains committed in supporting diversity and inclusion supporting female employees in the workplace. Over the years, female employees have continued to grow and progress throughout the Bank where women are given opportunities to showcase their talent.

The Bank also looks after working mothers, offering them maternity leave in the year 2021, 49 employees were on maternity leave across the Bank. Additionally, the Bank has provided working mothers with lactoriums as a means of support as they come back to work.

Other than gender diversity, the Bank also seeks to support people with different cultures, ages, abilities, thoughts and perspectives. This has also allowed the employability of people living with disabilities (PWD).

The Bank has employed a total of 1,237 employees, 51% male and 49% female. 462 employees are below 30 years. 709 employees are between 31-40 years. Only 167 employees are above 41 years. The Board of Directors comprises of six (6) directors of which two (2) are female. The Bank's senior management comprises of Thirteen (13) of which Four (4) are female.

Family Bank keeps a close track of the well-being of our employees. We believe that proactive engagement with employees helps motivate them to contribute to the overall success, an environment where all our employees feel good, recognized and involved. We use a range of channels to engage with our teams including quarterly performance reviews, internal newsletters, employee feedback channels and direct communications with the Managing Director in case of any grievances, ideas or suggestions.

We are committed to providing a working environment that is safe, secure and productive where everyone is treated with respect and fairly. We have adopted and successfully implemented an Occupational Safety and Health Management System in the Bank with the aim of continuously improving the well-being of our employees from the recommendations given in the reports filed. Throughout the COVID-19 pandemic, our teams worked tirelessly to support our customers and maintain the delivery of services. Meanwhile, our internal response focused on protecting our people and providing them with a working environment that supports their safety and wellbeing. Unfortunately, in 2021, we lost three employees, this was a sad and difficult time for all of us, we continue to pray that their souls continue resting in eternal peace.

We continue to encourage our teams to take up new skills throughout their careers to enable the Bank to address the continuous advancement of the financial sector. We also provide comprehensive training both internal and external to our employees based on their training and development needs. With the pandemic, all face-to-face training sessions were converted into online sessions. All refresher training for regulatory compliance and information security courses are offered to employees virtually. Induction courses for new employees are offered physically in adherence to COVID-19 protocols maintaining the safety of our employees which is our number one priority. The Bank runs a comprehensive training scheme with three (3) days as the average number of training days per employee.

Ethics and Integrity

The Board of Directors and Management of the Bank have put in place stringent policies and structures to ensure good corporate governance and strict adherence to the rule of law as it ensures that we:

- Look after our customers and honour the trust they put in us with their money,
- Maintain a good reputation with our shareholders and the communities in which we serve,
- Build a strong and safe workplace and culture.

The Bank's Code of Conduct and Ethics outlines the principles and standards of professional conduct that are expected at the Bank. The Code of Conduct guides everyone throughout the Bank's daily operations and professional decisions irrespective of the position, role or responsibilities. A robust ethical culture creates awareness and understanding of the negative impacts of non-compliance and creates a sense of accountability and transparency.

In 2021, the Bank focused on various departmental policies and processes with an emphasis on the individual responsibility in ensuring adherence to the board-approved business procedures. We have managed to do this through online channels including Zoom webinars and e-learning with mandatory attestations to reaffirm our commitment to compliance. Further to this, the Bank continues to do regular refresher courses for current employees and mandatory training for new employees. All these documents are available for all staff at the Family Bank Intranet.

Fraud

The Bank made major progress in the defense against financial crime by making the ecosystem safer for fraud prevention, monitoring and loss recovery by enhancing our screening capabilities for onboarding and monitoring of our customers, and streamlining processes enabling us to serve customers better.

We have continued to drive a customer awareness drive through an industry-led initiative spearheaded by the Kenya Bankers Association – Kaa Chojo (Be alert) campaign that highlights card, mobile and online safety awareness this was communicated through various channels i.e. SMS, In-branch TV screens & Posters, and our digital channels with the aim to reach all our customers.

Information Security and Cyber Security

The industry has observed a notable increase in cyber security incidents/attacks on Banks and companies in Kenya, notably with the expanding use of digital channels and increase uptake of e-commerce in response to the COVID-19 pandemic. At the Bank, we are committed to upholding our customers' trust in us by protecting their assets and personal data. We continue to track developments in the cyber threat landscape and update our control environment to keep abreast of the rapidly evolving cyber risks. Cyberattacks on our systems including those supplied to us by external service providers, can result in serious disruption to customer banking services, compromise data privacy and cause financial system instability.

Family Bank continues to invest heavily to protect our systems and keep our customer's data safe. The Bank has also heightened awareness of data protection, through the Information Security team carried out employee mandatory periodic training with the aim of generally improving the careful handling of personal data, we also run a range of information security communication and education initiatives to all staff. The Bank also participates in a public awareness programme, in collaboration with the Kenya Bankers Association as mentioned above.

Money Laundering

Money laundering is the process by which criminals attempt to conceal the illegal origin and illegitimate ownership of property and assets that are the fruits or proceeds of their criminal activities. If undertaken successfully, it also allows the criminals to present the proceeds of their crime as having originated from legitimate source thereby allowing them to maintain control over those proceeds and to dispose of them without hindrance, which ultimately is the goal of crime committed for profit.

This system typically involves three stages: the placement of funds in a financial system, the layering of transactions in order to conceal the origin, ownership and location of the funds, and the integration of the funds into society in the form of investments that appear legitimate.

The Bank has invested in a robust and comprehensive Anti-Money Laundering system that is able to ensure that AML risks are properly identified and evaluated. The Bank regularly communicates and trains its employees on awareness of our AML framework. In addition, the Bank has put into place measures to ensure strict compliance to Know Your Customer (KYC) information and we recognize and are committed to keeping pace with the increasingly complex techniques used by criminals. As well as adopting a clear focus on compliance with laws and regulations, we concentrate on operational efficiency and effectiveness.

Whistleblowing portal

The Bank continues to make an effort to promote a healthy and safe culture in which employees feel they can share their concerns with their fellow colleagues, line managers or HR. However, employees can also report concerns on wrongdoings anonymously and to support our people, we launched a whistleblowing portal in 2019 that seeks to encourage our employees to speak up. This platform allows the collection of feedback anonymously, securely and confidentially directly to the Chief Executive Officer, while creating awareness to build a responsible and ethical Bank.

Empowering Communities

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

Education

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

- High-School Scholarship Programmes

In 2021, the High School Scholarships Project rebranding to 'Fuzu Na Elimu' and through the Foundation, the Bank set aside KES 30 Million to benefit 118 students in 11 counties for their secondary education between 2021-2024. These counties were: Bungoma, Kisumu, Uasin Gishu, Nakuru, Kajiado, Meru, Makueni, Kiambu, Nyeri, Muranga and Mombasa.

The Foundation, in collaboration with the Bank Branch network, established 11 County-based Selection Panels for the High School Scholarship Beneficiaries from the following key National and County Government departments;

- Ministry of Interior and Coordination of National Government, represented by the County Commissioner
- County Government, represented by the County Executive Committee Member (CEC) Education
- Ministry of Education, represented by the County Director of Education
- Department of Children Services, represented by the County Children's Coordinator
- Kenya Primary Schools Head Teachers Association (KEPSHA) County Chairperson
- Faith-based Leaders from mainstream Churches & Ecumenical Groups

As at December 2021, over 600 students have been offered scholarships for their high school and tertiary education and are also offered mentorship and counselling services through workshops for the holistic growth of our scholarship beneficiaries.

- Mentorship Programmes

The Mentorship curriculum includes a Mentorship Manual, Mentoring Handbook, Learners Handbook, Personality Test Handout and Mentoring Feedback Form.

The Foundation institutionalized the mentorship process by building the technical capacity of the branch network as the delivery channel for spearheading mentorship to the High School Scholarship beneficiaries. A total of 61 out of 93 Family Bank Branch Managers were sensitized on the Foundation's Strategic Plan and Shared Value pilot projects, including an orientation on the Mentorship curriculum. These Family Bank Branch Managers were also orientated on Child Protection through interaction with representatives from the Department of Children's Services.

- Information and Communications Technology (ICT) - Animation, Software Engineering & Artificial Intelligence

Information Communications Technology (ICT) remains a key enabler for economic growth across different sectors of our economy. Through The Family Group Foundation has provided capacity building, technical training and skills development in Animation, Software Engineering and Artificial Intelligence to generate technology-based solutions for social impact in line with the 4th Industrial Revolution. In addition, these ICT start-ups will be supported through Business Incubation, Coaching and Investor Readiness for growth in partnership with Ada Labs Africa.

In 2021, the Bank set aside KES 5 Million to provide ICT skills development in animation, software development, artificial intelligence and data science to 100 youth countrywide. The five-month-long training program provided technical training in order to transform talents into employable skills and provide wealth creation opportunities.

Through the partnership with Ada Labs Africa, the Foundation is poised to build a cadre of tech-enabled youth that will be equipped for the next generation of work anchored upon tech-driven economies. The focus is to fill the skills and employment gaps in different sectors, offer capacity building platforms to equip our youth in various skills as we grow wealth creation opportunities and build sustainable communities through strategic partnerships, under our Shared Value Initiatives.

The training was implemented through three to four months of practical boot camps in partnership with Ada Labs vehicles that includes Ada Animation through its Animation boot camp, Artificial Intelligence Center of Excellence(AICE) through its AICE Data Scientists Program and Ada Tech, via its Software Development Program.

The Animation training, which kicked off the training, was chaperoned by globally acclaimed mentors with a wealth of knowledge and experience in their own right including Dean Lyon - Director at Mana Animation, Jack Giarraputo – Formerly of Happy Madison Productions and Kevin Sharpley - CEO of Kijik Multimedia Inc. The mentors worked closely with the students, teaching, guiding and offering hands-on experience, as the students took on an exciting learning journey.

- Construction in adherence using green building technologies

Among the sustainable investment themes accelerated by the pandemic is green building technologies. The Foundation has conducted technical and vocational skills development in construction trades e.g. plumbing, masonry, electrical, welding and carpentry for youth in partnership with Arc Skills. Thereafter, the beneficiaries will be issued with construction starter toolkits for self-employment, income generation and wealth creation in the construction sector.

The Family Group Foundation through a Partnership Engagement with USAID Tumikia Mtoto in partnership with World Vision Project, co-created interventions to support the economic empowerment for Adolescent Girls and Young Women (AGYW).
Through Arc Skills, a training service provider in the Construction sector, the Foundation conducted technical and vocational skills development in construction trades - plumbing and electrical for the 113 Adolescent Girls and Young Women in Nairobi and Kiambu Counties. Thereafter, the beneficiaries will be issued with construction starter toolkits for self-employment, income generation and wealth creation in the construction sector.

Key Implementing Partners included:

- St. John's Community Centre
- Kariri Njama Foundation
- Muchatha Youth Development Centre
- ACK Kawaida Church

A total of 4 sites were established, one in Nairobi County and three in Kiambu. In all 4 sites, the adolescent girls undertook Plumbing and Electrical courses for 3 months.

Central Police Station Refurbishment

In 2021, Family Bank completed a KES 3 million renovation of the Nairobi Central Police Station in July 2021 to enhance the service delivery of the Police to members of the public, enable a better working environment for the servicemen and women at Central Police Station while creating a friendlier people-centred station.

Donation to the IG's office

Family Bank donated 36 office chairs to The Inspector General, National Police Service in effort to foster the partnership and explore areas of mutual interests.

Sports

For the second year in a row, due to the Covid-19 pandemic, the Bank did not host the 14th edition of the annual race. We continued supporting projects that give an opportunity to autistic children access quality education at Sosiani Primary School, making it the only school in Rift Valley region that offers a special needs education program for autistic pupils. Under the rallying call 'Champions run for Autism' we aim to build more centres to cater for children living with autism and improve on the 97 centres existing in the nation.

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

Water and Sanitation

We continue to leverage on our partnership with water.org, an international Non-Governmental Organization whose key area of focus is the improvement of water and sanitation access and standards globally. Through this partnership, the Bank offers Small loans for water and sanitation solutions, we understand the power safe water has to change lives in Kenya. When people in need have access to water and sanitation loans, they are able to establish water and sanitation facilities at home – turning problems into potential.

Agribusiness

In line with the Bank's agenda on social impact anchored on the Sustainable Development Goals (SDGs) to alleviate poverty and create opportunities for food security, the Bank has rolled out initiatives in the dairy, agri-business, water, livestock, horticulture and renewable energy value chains with strategic partners such as Performeter Agribusiness, Palladium, among others. In addition, the Family Group Foundation is focused on scaling up "Youth In Agribusiness" by promoting technical training and skills development of new farming technologies using climate-resilient hydroponics farming for increased productivity as well as optimal utilization of water, land and labour for food production.

In 2021, the Bank established a strategic partnership jointly with the Embassy of Israel, Latia Agribusiness Solutions and the County Governments of Kajiado, Kiambu, Nakuru and Meru to establish pilot farms for the MASHAV Agribusiness graduates. Every year, the Israeli Government through bilateral cooperation with the Kenya Government's Ministry of Water and Irrigation sponsors about 100 Agriculture graduates from Kenyan Universities for an 11-month postgraduate training in Israel.

Environmental Footprint

The Trees for Life initiative, through The Family Group Foundation, in partnership with like-minded organizations such as Young African Leaders Initiative (YALI) and Nation Media Group, continues to support environmental conservation for climate change adaptation in line with the Government's initiative to increase Kenya's forest cover by 10% by 2022.

In 2021, we signed a Partnership Agreement with Green Blue Foundation Africa (GBFA), to pilot the "Per Square Meter" reforestation model at the Ngong Hills Forest Reserve, jointly with Kenya Forest Service. The pilot reforestation project has been allocated 7,000 acres for environmental conservation. The launch coincided with the United Nations Climate Change Global Conference (COP 26) in Glasgow, Scotland to commemorate local climate actions by Family Bank and the Foundation.

The three-phased forest restoration implementation model was designed as follows:

- Phase 1 - Land preparation
- Phase 2 - Tree Planting & Growing
- Phase 3 - Silviculture & Nurturing Trees

To date, we have planted over 10,000 seedlings within Nairobi and Machakos Counties.

Product Development and Digital Innovation

2021 continued to challenge the Bank and required intensified advancement of our technology and digitization focused both on our internal operations and customer-facing transactions. However, for Family Bank innovation is not just about product innovation but extends to innovation related to financing, partnerships, and engagement i.e. solutions throughout an ecosystem that transform lives in many different ways.

Family Bank's progress in integrating digital transformation into banking service provision is an important strategic issue to customer experience and satisfaction, competitiveness, data security, and operational effectiveness and efficiency. The below lists the many initiatives accomplished in 2021:

- Successfully completed the upgrade of PesaPap mobile banking platform with some additional features and enhancements. It was well - appreciated. Further planning and development will be initiated in 2022.
- Deployment of the Bancassurance System
- Relocation of the Bank's Data Center
- Server Upgrades and replacements with enhanced capabilities
- Payments play a very critical role in the customer banking experience. In 2021, we launched 4 different types of Prepaid Cards in partnership with Visa. These cards can be used by both Family Bank customers and non-customers and are not linked to a bank account.

Other initiatives in our digital transformation initiated or implemented in 2021 include;

- Branch of the future/transformation is an important initiative in Family Bank's digital agenda
- Digital mobile account opening initiative development will be planned to be deployed in mid-2022
- Artificial intelligent Chatbot, Virtual Cards, Investment Products are in our pipeline and expected to be served to our customers within 2022
- We are also renewing other channels and improving services on them: contact centre infrastructure to enable our customers to self-serve to be deployed in 2022.

Awards and Recognition

Our commitment to customer satisfaction and our employees' expertise once again earned us a number of awards in 2021 that we are proud of:

- Recognized Best Overall Bank for Customer Responsiveness and Satisfactory Digital Experience by the Kenya Bankers Association
- Recognized Best Tier 2 Bank for Customer Responsiveness and Satisfactory Digital Experience by the Kenya Bankers Association
- Family Bank ranks 11th in the top 25 Brands transforming lives in Kenya. The Bank was noted for its leading role in investing in businesses to support the community during the pandemic
- Financial Communication Campaign of the Year and Overall Public Relations Campaign of the Year at the 2021 Public Relations Society of Kenya Annual Awards for Excellence for the Corporate Bond Campaign where the Bank raised KES 4.42 billion via public placement marking a subscription of 147.3% by the Public Relations Society of Kenya Annual Awards.
- Family Bank won the 'Visa Marketing Warrior Award' for continuously being consistent on the Marketing front with VISA for the year 2021.

Service Excellence

Great customer service starts with having motivated and professional employees who can meet and exceed the customer's needs and expectations. We empower our teams by providing training and internal communication campaigns to raise their knowledge and experience to deliver on our promise and ensure that the highest levels of customer satisfaction are achieved.

The Bank continuously collects customer feedback on our products & services, branches and service touchpoints and the customer journey. Our digital channels including our mobile banking, internet banking, website and social media platforms) are continuing to enjoy rapid growth in popularity and have also become an integral part of all feedback channels. Objective criteria, such as the ratings for PesaPap App in app stores, for example, show that the services we offer via digital channels are meeting our customers' expectations and this can be seen through the responses.

We have aimed at ensuring that the entire bank is geared toward a shared objective and a shared understanding of the topic of attaining excellence in customer experience, which by building lasting relationships by keeping customers happy through great service. This will be achieved by Implementing our 4-pillar strategy to transform customer experience to the best-in-class and best-in-industry.

We primarily view complaints and criticism by our customers as an opportunity to improve our products & services and procedures & processes, reduce errors and increase how customers benefit from our services. The importance of taking customer complaints seriously is unquestioned throughout the entire Bank.

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

Social media numbers as at 31st December 2021:

	December 2018	December 2019	December 2020	December 2021
Facebook	43,261	46,329	53,092	97,461
Twitter	16,086	19,818	22,592	34,265
LinkedIn	15,572	21,225	24,225	31,735

CORPORATE GOVERNANCE STATEMENT

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

1. STATEMENT OF COMPLIANCE

The Company continues to comply with the Companies Act 2015, Banking Act (Cap 488) as well as the Central Bank of Kenya Prudential Guidelines on Corporate Governance. The Company has a listed Medium Term Note in the Fixed Securities Segment of the Nairobi Securities Exchange (NSE) and as such, is bound by and complies with the Capital Markets Act (Cap 485) and all subsidiary legislation made thereunder, including the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (CMA Governance Code). The Company also complies with the rules, guidelines and directions issued by the Capital Markets Authority and the NSE.

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

2. BOARD MANAGEMENT

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

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

Board Charter

The Board is guided by a Board Charter which documents the constitution, roles and responsibilities of the Board. The Charter sets out the corporate governance principles for the Board. It guides on the delegation of authority, defines the matters reserved for the Board and outlines the policies and practices of the Board.

Among the key provisions of the Board Charter are:

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

Board Composition

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

Board Independence and Conflicts of Interest

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Independence and Conflicts of Interest (Continued)

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

Separation of the Role of Chairman and Chief Executive Officer

The Board Chairman

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

The Chairman also ensures:

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

The Chief Executive Officer

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

The Chief Executive Officer undertakes the following key responsibilities:

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

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

Board Leadership and Responsibility

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

- The provision of strategic guidance and effective oversight of management and maximization of the Company's financial performance and shareholder value within the framework of appropriate risk assessment.
- The provision of the overall direction, governance, promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.

Cognisant of its responsibility for defining appropriate governance practices and to ensure that such practices are followed and periodically reviewed for improvement, the Board has met at regular intervals to, among others things:

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Appointment, Composition, Size and Qualifications of Board Members

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

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

Principle on Age Limit for Board Members

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

Governance Audit

In line with the CMA Code of Governance, a Governance Audit was conducted on the Company in March 2022. The Governance Audit Report is included in page 53.

3. RISK MANAGEMENT

Why it matters

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

The Board delegates certain responsibilities to respective Board Committees.

Our approach

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

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

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

Assurance is guaranteed through self assessment by respective departments, risk management and compliance reviews by the risk department, as well as internal and external audits.

CORPORATE GOVERNANCE STATEMENT (Continued)

Relations with Shareholders

The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM),the published annual report, and the Company's website are used as platforms to communicate with all shareholders.

The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Companies Act, 2015 and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Shares Department at the Head Office coordinates communication with shareholders through emails, calls and through our branch network. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit the website www.familybank.co.ke/investor relations for general information on the Company as well as annual reports. In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Bank's performance in general meetings.

Board Activities 2021

a) Board attendance

The Board held 6 board meetings during the year. All the meetings convened had quorum.

The attendance of the individual directors was as follows:

Name	19.03.21	21.05.21	24.06.21	02.08.21	14.12.21	15.12.21	
Dr. W. Kiboro (Chairman)	Present	Present	Present	Present	Present	Present	100%
Dr. R. Waweru*	Present	Present	Present				50%
Mr. L. Muema	Present	Present	Present	Present	Present	Present	100%
Mr. L. Tiampati**	Present	Present	Present	Present			67%
Mr. T.K. Muya	Present	Present	Present	Present	Present	Present	100%
Mr. F. Mungai	Present	Present	Present	Present	Present	Present	100%
Ms. M. Mburu	Present	Present	Present	Present	Present	Present	100%
Ms. R. Mbithi	Present	Present	Present	Present	Present	Present	100%

** Retired from the board in June 2021*

*** Retired from the board in November 2021*

b) Board Training and Continuous Professional Development

During the year, the Board members attended training on Corporate Governance as part of Continuous Professional Development and in line with CBK Prudential Guideline on Corporate Governance. Among the topics covered include the role of directors in strategy and risk management, board dynamics and the future of banking.

c) Board Evaluation

The annual Board evaluation was conducted in March 2022 in a process led by the Board Chairman and supported by the Company Secretary.

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

CORPORATE GOVERNANCE STATEMENT (Continued)

4. COMMITTEES OF THE BOARD

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

4.1 Board Audit Committee

The Committee reviews the integrity of the financial statements of the Company and its subsidiaries and recommends the statements for approval to the Board, the effectiveness of the Company's system of internal control and receives reports on the findings of the internal and external audits and tracks the actions on audit findings. The Committee also reviews the proposed work plans for the Internal Audit function at the beginning of each year.

The Committee held five meetings during the year under review. The members of this committee during the year under review were Mr. L. Muema (Chairman), Dr. R. Waweru, Mr. L. Tiampati and Ms. M. Mburu. Dr. R. Waweru and Mr. L Tiampati retired from the Board and from this Committee in June and November 2021 respectively. The Chief Internal Auditor attended all Committee meetings.

4.2 Board Credit Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book.

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

4.3 Board Risk Management Committee

The Committee oversees the group's preparedness and mitigation for the major risks faced by the Group across the business including operational risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk. The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing the risks.

The Committee met four times during the year and recorded a quorum during all its meetings. The members of the Committee in the year under review were Ms M. Mburu (Chairperson), Mr. L. Muema, Dr. R. Waweru and Mr L. Tiampati. Dr. R. Waweru and Mr. L Tiampati retired from the Board and from this Committee in June and November 2021 respectively. The Chief Risk Officer attended all Committee meetings.

4.4 Board Human Resource Committee

The Committee is responsible for the review of the human resources policies and practices and overseeing staff welfare. It ensures that the organisational structure supports the Company's strategy. It also ensures that the Company is appropriately resourced.

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

CORPORATE GOVERNANCE STATEMENT (Continued)

4.5 Board Strategy Committee

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

The Strategy Committee held a retreat in June 2021, attended by Directors and Senior Management, to review the implementation of the Bank's five-year (2020 – 2024) Strategic Plan.

The Committee met three times during the year and achieved quorum in all its meetings. The members of the Committee are Mr. L. Muema (Chairman), Dr W. Kiboro, Mr T. K Muya, Ms. M . Mburu, and Ms. R. Mbithi.

4.6 Board Nomination and Governance Committee

The Committee focuses on governance matters and reviews the structure, size and composition of the Board and Board Committees . It identifies, nominates and recommends for the approval by the board, candidates to fill board vacancies as and when they arise. The Committee members are Dr. W. Kiboro (Chairman), Mr. F. Mungai and Mr T.K Muya. This committee held two meetings in 2021.

5. BOARD PERFORMANCE

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

6. CAPITAL STRUCTURE

a) Share Capital

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

b) Top Ten Shareholders as at 31 December 2021

No.	Shareholder	No. of Shares
1	Kenya Tea Development Agency Holding ltd	212,184,905
2	Estate of the Late Rachael Njeri	167,143,948
3	Daykio Plantations Limited	158,460,364
4	Titus Kiondo Muya	73,408,502
5	Equity Nominees Limited A/C 00084	46,417,000
6	Sanlam Securities	44,444,445
7	Julius Muya Kiondo	33,448,788
8	Ann Muya	33,428,788
9	Mark Keriri	33,428,788
10	Sheila Kahaki Muya	33,428,788
	Top 10 Shareholders	835,794,316
	Others	451,313,228
	Total Issued Shares	1,287,107,542

CORPORATE GOVERNANCE STATEMENT (Continued)

c) Distribution of Shareholders as at 31 December 2021

	No. Of Shareholders	No. Of Shares	Percentage
10,000,000 - ABOVE	16	984,786,872	76.51%
50,000 - 9,999,999	625	247,599,583	19.24%
10,000 - 49,999	2,046	37,424,944	2.91%
1 - 9,999	3,284	17,296,143	1.34%
	5,971	**1,287,107,542**	**100.00%**

d) Directors Holdings as at 31 December 2021

Name	No Of Shares	Percentage
Dr. Wilfred D. Kiboro	11,497,658	0.89%
Mr. Titus Muya	73,408,502	5.70%
Mr. Francis Mungai	1,620,404	0.13%
Mr. Lazarus Muema	130,000	0.01%
	86,656,564	**6.73%**

GOVERNANCE AUDITOR'S REPORT

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STATEMENT OF THE RESPONSIBILITY OF DIRECTORS

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. The responsibility includes planning, designing, and maintaining governance structures through policy formulation, which is necessary for efficient and effective governance of the organization. The Board is also responsible for ethical leadership, risk governance and internal control, transparency and disclosure, equitable protection and exercising of members' rights and obligations, compliance with laws and regulations, sustainability, performance management and strategy formulation and oversight.

The Board of Directors of Family Bank Limited ("the Company") is committed to the highest standards of Corporate Governance and strives for continuous improvement by identifying any loopholes and gaps in the Company's governance structures and processes. It is on this premise that the Board commissioned a governance audit, with the aim of ensuring that all processes necessary for directing and controlling the Company are in place.

The Directors have therefore ensured that the Company has undergone a governance audit for the year ended 31 December 2021, and obtained a report, which discloses the state of governance within the Company.

GOVERNANCE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organization, in accordance with the best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICPSK Governance Audit Standards and Guidelines, which conform to global standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Being part of a continuous audit process, the auditor has assessed the continual application of recommendations from previous audits and has ensured that the current recommendations are in line with the Company's vision and mission in order to ensure that the Board's goals, structure and operations are consistent with the latest developments in in Corporate Governance. The structure of the report, findings and recommendations will therefore focus on providing a progressive approach following the seven steps of governance auditing.

OPINION

In our opinion, the Board has put in place a sound governance framework, which is in compliance with the legal and regulatory framework and in line with global best governance practices for the interest of stakeholders. In this regard, we issue an unqualified opinion.

CS. Bernard Kiragu, ICPSK GA. No 159
For: Scribe Services

22 April 2022

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of affairs of Family Bank Limited (the "Bank" or the "Company") and its subsidiary, Family Bank Insurance Agency Limited (together the "Group").

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

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

The Group recorded a significantly improved performance from a total comprehensive income. The Business model review and process refinement undertaken in the last two years is now generating the envisaged efficiencies and business growth. Net interest income increased by 16% corresponding to net increase in the loans and advances which increased by 18% while customer deposits increased by 17%. Non funded income improved by 13% .

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

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

REPORT OF THE DIRECTORS (Continued)

DIVIDEND

The directors recommend a full and final dividend of Kshs. 0.83 (2020:Nil) per share for the year ended 31 December 2021 amounting to Kshs. 1.1 billion subject to shareholders' approval at the Annual General Meeting (AGM).

DIRECTORS

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

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

STATEMENT AS TO DISCLOSURE TO THE GROUP'S AUDITOR

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

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

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

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

By order of the Board

Eric K. Murai
Company Secretary
31 March 2022

STATEMENT OF DIRECTORS RESPONSIBLIITIES

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

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

i. designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then apply them consistently; and

iii. making judgments and accounting estimates that are reasonable in the circumstances

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

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

Approved by the board of directors on 31 March 2022 and signed on its behalf by:

Dr. Wifred D. Kiboro
Chairman, Board of Directors

Rebecca Mbithi
Managing Director & CEO

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

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Family Bank Limited (the 'Bank' or 'Company') and its subsidiary (together, the Group) set out on pages 62 to 133, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2021, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Family Bank Limited give a true and fair view of the financial position of the Group and the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Key audit matters

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

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances at amortised cost Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL. The policies for estimating ECL are explained in notes 3 (a) and 4.1of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and • the relevance of forward-looking information used in the models; Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included: • We reviewed the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9; • We tested how the Group extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model • We reviewed judgments applied in the staging of loans and advances; • We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis; • For LGD, we tested the assumptions on the timing of the recovery cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports; • We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures; • For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios. • We reviewed and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

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

Other information

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

In our opinion the information given in the Directors' Report on pages 55 and 56 is consistent with the financial statements.

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

STATEMENT OF FINANCIAL POSITION

	Notes	Consolidated 2021 Kshs 000	Consolidated 2020 Kshs 000	Bank 2021 Kshs 000	Bank 2020 Kshs 000
ASSETS					
Cash and balances with CBK	13	8,212,917	8,879,521	8,212,917	8,879,521
Balances due from banking institutions	14(a)	4,287,227	819,406	4,287,227	819,406
Government securities:					
-At amortised cost	15	13,584,768	8,901,395	13,573,762	8,901,395
-At fair value through profit or loss	15	1,568,955	1,066,797	1,568,955	1,066,797
-At fair value through other comprehensive income	15	9,546,922	7,033,006	9,546,922	7,033,006
Other investments	19	1,355,980	126,804	1,355,980	126,804
Current income tax		3,336	27,904	-	-
Other assets	18	1,006,508	1,421,545	968,371	1,394,454
Loans and advances to customers	16	66,901,824	56,579,798	66,901,824	56,579,798
Investment in subsidiary	20	-	-	10,000	1,000
Investment properties	21	23,400	23,400	23,400	23,400
Property and equipment	22	2,061,977	2,211,001	2,061,386	2,209,891
Intangible assets	23	326,111	399,355	315,251	384,289
Right of use of assets	33	919,407	1,483,603	919,407	1,483,603
Prepaid operating leases	24	132,553	134,583	132,553	134,583
Deferred income tax	28	1,805,110	1,552,679	1,805,110	1,552,679
TOTAL ASSETS		**111,736,995**	**90,660,797**	**111,683,065**	**90,590,626**
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Customer deposits	25	81,911,523	69,756,770	82,430,537	70,125,378
Balances due to banking institutions	14(b)	2,281,200	451,741	2,281,200	451,741
Current income tax		263,148	126,975	263,148	126,975
Provisions	27(a)	549,497	587,877	549,497	587,877
Other liabilities	27(b)	1,757,548	1,655,823	1,613,430	1,512,866
Borrowings	26	8,241,794	3,017,148	8,241,794	3,017,148
Lease liability	33	1,139,178	1,607,076	1,139,178	1,607,076
Deferred income tax	28	761	1,126	-	-
TOTAL LIABILITIES		**96,144,649**	**77,204,536**	**96,518,784**	**77,429,061**
SHAREHOLDERS' FUNDS					
Share capital	29	1,287,108	1,287,108	1,287,108	1,287,108
Share premium		5,874,662	5,874,662	5,874,662	5,874,662
Revaluation surplus		278,424	278,424	278,424	278,424
Fair value reserve		(186,338)	(13,777)	(186,338)	(13,777)
Retained earnings		6,881,691	6,029,844	6,453,626	5,735,148
Statutory reserve		369,161	-	369,161	-
Proposed dividends		1,087,638	-	1,087,638	-
TOTAL SHAREHOLDERS' FUNDS		**15,592,346**	**13,456,261**	**15,164,281**	**13,161,565**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**111,736,995**	**90,660,797**	**111,683,065**	**90,590,626**

The financial statements on pages 62 to 133 were approved for issue by the board of directors on 31 March 2022 and were signed on its behalf by:

Dr. Wifred D. Kiboro
Director

Rebecca Mbithi
Director

3. Critical accounting estimates and judgements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation surplus	Fair value reserve	Retained earnings	Proposed Dividend	Statutory reserve	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000		Kshs 000	Kshs 000
Year ended 31 December 2020								
At start of year	**1,287,108**	**5,874,662**	**278,424**	**-**	**5,176,232**	**-**	**-**	**12,616,426**
Comprehensive income								
Profit for the year	-	-	-	-	1,162,520	-	-	1,162,520
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-		(13,777)	-	-	-	(13,777)
Transaction with owners in their capacity as owners								
Dividend paid	-	-	-	-	(308,908)	-	-	(308,908)
At 31 December 2020	**1,287,108**	**5,874,662**	**278,424**	**(13,777)**	**6,029,844**	**-**	**-**	**13,456,261**
Year ended 31 December 2021								
At start of year	1,287,108	5,874,662	278,424	(13,777)	6,029,844	-	-	13,456,261
Comprehensive income								
Profit for the year	-	-	-	-	2,308,646	-	-	2,308,646
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend	-	-	-	-	(1,087,638)	1,087,638	-	-
At 31 December 2021	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,881,691**	**1,087,638**	**369,161**	**15,592,346**

BANK STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs 000	Share premium Kshs 000	Revaluation surplus Kshs 000	Fair value reserve Kshs 000	Retained earnings Kshs 000	Proposed Dividend	Statutory reserve Kshs 000	Total Kshs 000
Year ended 31 December 2020								
At start of year	1,287,108	5,874,662	278,424	-	4,968,009	-	-	12,408,203
Comprehensive income								
Profit for the year	-	-	-	-	1,076,047	-	-	1,076,047
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-		(13,777)	-	-	-	(13,777)
Transaction with owners in their capacity as owners								
Dividend paid	-	-	-	-	(308,908)	-	-	(308,908)
At 31 December 2020	**1,287,108**	**5,874,662**	**278,424**	**(13,777)**	**5,735,148**	**-**	**-**	**13,161,565**
Year ended 31 December 2021								
At start of year	1,287,108	5,874,662	278,424	(13,777)	5,735,148	-	-	13,161,565
Comprehensive income								
Profit for the year	-	-	-	-	2,175,277	-	-	2,175,277
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend					(1,087,638)	1,087,638	-	-
At 31 December 2021	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,453,626**	**1,087,638**	**369,161**	**15,164,281**

STATEMENT OF CASH FLOWS

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

NOTES

1. General information

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

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

2. Significant accounting policies

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

a) Basis of preparation

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

b) Basis of measurement

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

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

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

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

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

Changes in accounting policy and disclosures

(ii) Use of estimates

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

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

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

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

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

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

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

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

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

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

The Phase 2 amendments provide the following reliefs:

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

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

Changes in accounting policy and disclosures

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

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting
period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments deferred from 1 January 2022 to 1 January 2023 also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

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

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

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

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

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

NOTES (Continued)

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

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

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank. Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments: Recognition and Measurement,

NOTES (Continued)

2. Significant accounting policies (continued)

Consolidation (continued) when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Investment in subsidiary

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

(d) Interest income and expense recognition

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

i. Purchased or originated credit impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

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

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

(e) Fee and commission income

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

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

(f) Net trading income

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

(g) Foreign currency translation

i. Functional and presentation currency

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

Transactions and balances

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

(h) Financial assets and liabilities

The Group accounts for its financial instruments in line with IFRS 9 which establishes principles that would present relevant and useful information to users of financial statements in relation to:

NOTES (Continued)

2. Significant accounting policies (continued)

i) Classification of financial instruments;

ii) Initial and subsequent measurement of financial instruments;

iii) Modification and derecognition of financial instruments; and

iv) Impairment of financial assets.

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

The Group classifies its financial assets into the following categories:

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

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

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

i. Financial assets

Recognition and Subsequent measurement

(a) Debt instruments

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

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

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

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

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

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

  When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net gains on disposal of financial instruments". Interest income from the instruments is included in "interest income" using the effective interest rate.

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

(b) Recognition and subsequent measurement

Group's business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets.

2. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)
(i) Financial Assets (continued)

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

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

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

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

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

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

(c) Modification of loans

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

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

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

NOTES (Continued)

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

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

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

(d) Derecognition other than on a modification

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

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

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

i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

ii) Is prohibited from selling or pledging the assets; and

iii) Has an obligation to remit any cash it collects from assets without material delays.

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

e) Repossessed collateral

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

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

(ii) Financial Liabilities

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

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

(a) Classification and subsequent measurement

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

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

(b) Derecognition of financial liabilities

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

(c) Financial guarantee contracts and loan commitments

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

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

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15 Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument, other than for staff facilities. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan to the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

(i) Offsetting financial instruments

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

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

(j) Borrowings

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

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

(k) Property and equipment

Property and equipment are stated at cost (or as professionally revalued from time to time as in the case of Freehold land and buildings) less accumulated depreciation and any accumulated

impairment losses. Any surplus arising on revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve account. Decreases that offset previous increases of the same asset are recognised in other comprehensive income

NOTES (Continued)

Significant accounting policies (continued)
(k) Property and equipment (continued)

and charged against the revaluation surplus; all other decreases are charged to profit or loss. The Group's policy is to professionally revalue freehold land and buildings at least once every five years. The last valuation was done on 31 December 2019. The valuation considered the highest and best use of the property. The basis of valuation for freehold land and buildings is open market value.

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

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

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

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

(l) Intangible assets

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

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. During development of these software products, direct costs such as the software development employee costs and an appropriate portion of relevant overheads are recorded as work in progress and amortised from the point at which the asset is ready for use. Computer software development costs recognised as assets are amortised over an estimated useful life of three to eight years. Costs associated with the maintenance of computer software are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

(m) Investment properties

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

NOTES (Continued)

2.Significant accounting policies (continued)
(m) Investment properties (continued)

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

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

(n) Non-current assets held for sale

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

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

(o) Income tax

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

Current income tax

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

Deferred income tax

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

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

Current and deferred income tax for the year

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

(p) Provisions

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

(q) Contingent liabilities

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

NOTES (Continued)

2. Significant accounting policies (continued)

(r) Statutory reserve

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

(s) Leases

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

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

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

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

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

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

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

(t) Cash and cash equivalents

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

(u) Employee benefit costs

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

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

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

(v) Sale and repurchase agreements

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

NOTES (Continued)

2. Significant accounting policies (continued)

(w) Operating segments

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

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

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

(x) Comparatives

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

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

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

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

Critical accounting estimates and assumptions

(a) Measurement of expected credit loss allowance

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

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

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

(b) Income taxes

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

Critical judgements in applying the entity's accounting policies

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

- Whether, and how much, to provide for the potential exposure of each litigation and/or claim, disclose or not disclose certain exposures;
- Whether the Bank is reasonably certain to exercise extension of its leases;

NOTES (Continued)

3. Critical accounting estimates and judgements (Continued)

- Whether rent concessions result to new leases or a discount on the existing leases;
- The classification of joint arrangements;
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding; and
- The classification of financial assets.

4. Finacial Risk Management Disclosures

Risk management framework

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

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

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management committee comprising of two non-executive directors to assist in the discharge of this responsibility. The Board has also established the Group Asset and Liability Committee (ALCO), Credit Committee and Risk and Compliance Committee, which are responsible for developing and monitoring risk management policies in their specified areas. With the exception of the ALCO which is a Management Committee, these committees comprise of both non-executive and executive members and report regularly to the Board of Directors on their activities.

The Board provides written principles for overall risk management as well as written policies covering specific risk areas. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best market practices. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk and Compliance Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. This committee is assisted in these functions by the Assurance Function. The Assurance Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

4.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's loans and advances to customers and other banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances.

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

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

Management of credit risk

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

The committee assisted by the credit department is responsible for the management of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the board of directors.

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)

- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Developing and maintaining the group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- Varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews by credit department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the group credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the group in the management of credit risk.

Credit risk measurement

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

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

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

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

4.1.1 Loans and advances

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

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

(i) Significant Increase in credit risk (SICR)

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

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

Quantitative Criteria

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

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

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

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)
(i) Significant Increase in credit risk (SICR) (continued)

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

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

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

Qualitative Criteria

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

1. Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
2. Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
3. Changes in the Group's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).
4. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
5. Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default; or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
6. Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)
(i) Significant Increase in credit risk (SICR) (continued)

7. Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

(ii) Definition of default and credit-impaired assets

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

Qualitative criteria

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

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

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

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

90-day rebuttable presumption

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

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

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

Default (LGD), defined as follows:

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

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

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

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

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

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

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

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

Forward-looking information incorporated in the ECL models

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

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

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

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

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

Grouping of instruments for losses measured on a collective basis

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

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

Write-off policy

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

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

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

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

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

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

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

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

Risk limit control and mitigation policies

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

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

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

The table above represents the worst-case scenarios of credit exposure for 31 December 2021 and 31 December 2020, without taking into account any collateral held or other credit enhancements attached.

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

Loans and advances to customers comprise of 62% (2020 - 66 %) of the total maximum exposure.

While collateral is an important mitigant to credit risk, the Group's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

The subsequent tables within this note include the movement in gross loans and allowances excluding interest accrued on fully impaired loans and advances of Kshs 1.55 billion (2020: Kshs 1.29 billion)

NOTES (Continued)

4. Finacial Risk Management Disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

Term loans	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
Loans and advances as at 1 January 2021	**41,449,913**	**3,494,307**	**6,776,827**	**51,721,047**
Changes in the gross loans				
– Transfer to stage 1	409,045	(260,827)	(148,218)	-
– Transfer to stage 2	(2,719,538)	3,061,184	(341,646)	-
– Transfer to stage 3	(869,240)	(648,137)	1,517,376	-
Changes in models/risk parameters	(5,901,605)	(1,038,357)	(1,174,354)	(8,114,316)
New financial assets originated or purchased	25,156,903	2,463,744	4,673,811	32,294,458
Financial assets that have been derecognised	(12,215,955)	(1,614,739)	(1,868,914)	(15,699,608)
Loans and advances as at 31 December 2021	**45,309,523**	**5,457,176**	**9,434,882**	**59,693,703**

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

Term loans

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 01 January 2021	**594,489**	**224,976**	**3,090,481**	**3,909,946**
Changes in the loss allowance				
– Transfer to stage 1	104,015	(62,492)	(41,523)	-
– Transfer to stage 2	(22,589)	89,449	(66,860)	-
– Transfer to stage 3	(11,614)	(63,604)	75,219	-
– Write-offs	-	-	(315,862)	(315,862)
New financial assets originated or purchased	322,026	224,398	958,570	1,504,994
Financial assets that have been derecognised	(134,961)	(48,195)	(573,393)	(756,549)
Changes in models/risk parameters	(235,001)	277,803	193,759	236,561
Foreign exchange and other movements	(69,811)	36,647	33,164	-
Loss allowance as at 31 December 2021	**546,554**	**678,982**	**3,353,554**	**4,579,090**

Mortgage loans

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 01 January 2021	**11,803**	**25,679**	**409,189**	**446,673**
Changes in the loss allowance				
– Transfer to stage 1	5,536	(5,163)	(373)	-
– Transfer to stage 2	(268)	268	-	-
– Transfer to stage 3	-	-	-	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	2,052	51,732	12,826	66,611
Financial assets that have been derecognised	(467)	(22,010)	(165,751)	(188,228)
Changes in models/risk parameters	(19,017)	1,141	(93,155)	(111,032)
Foreign exchange and other movements	3,113	2,449	(5,562)	-
Loss allowance as at 31 December 2021	**2,752**	**54,096**	**157,174**	**214,022**

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

Overdraft and credit cards **Loss allowance – Loans and advances to customers at amortised cost**	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 01 January 2021	**78,899**	**22,312**	**263,100**	**364,310**
Changes in the loss allowance				
– Transfer to stage 1	3,171	(1,846)	(1,325)	-
– Transfer to stage 2	(2,516)	5,418	(2,903)	-
– Transfer to stage 3	(617)	(3,720)	4,337	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	1,695	4,928	13,123	19,747
Financial assets that have been derecognised	(12,725)	(9,664)	(54,818)	(77,207)
Changes in models/risk parameters	(51,533)	22,892	1,063	(27,579)
Foreign exchange and other movements	(38)	147	(109)	-
Loss allowance as at 31 December 2021	**16,336**	**40,468**	**222,468**	**279,271**

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

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

2020 Other financial assets	Cash & Bank Balances Kshs'000	Loans to Banks Kshs'000	Financial assets FVTOCI Kshs'000	Financial assets FVTPL Kshs'000	Financial assets Amortized cost Kshs'000	Total Kshs'000
Gross carrying amount as at 1 January 2020	**6,961,324**	**2,779,374**	**-**	**1,662,515**	**8,187,378**	**19,590,591**
Changes in the loss allowance						
– Transfer to stage 1	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-
– Write-offs	-	-	-	-	-	-
New financial assets originated or purchased	1,918,197	-	7,033,006	-	714,017	9,665,220
Financial assets that have been derecognised	-	(1,959,968)	-	(595,718)	-	(2,555,686)
Gross carrying amount as at 31 December 2020	**8,879,521**	**819,406**	**7,033,006**	**1,066,797**	**8,901,395**	**26,700,125**

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

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

Modified financial assets

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

Financial assets (with loss allowance based on lifetime ECL) modified during the period	2021 Kshs 000	2020 Kshs 000
Gross carrying amount before modification	-	16,489,272
Loss allowance before modification	-	968,976
Net carrying amount before modification	-	15,520,296
Net modification gain/(loss)	-	15,880
Net amortised cost after modification	-	-

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	2021 Kshs 000	2020 Kshs 000
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	-	-
	-	-

Collateral management

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

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

There has been no change in collateral management in the year

Valuation of collateral

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)

Fair value of collateral held

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

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

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually. At 31 December 2021 the net carrying amount of loans and advances was Kshs 66,901,824 (2020 – Kshs 56,579,798,000) and the value of the respective collateral was KShs 125,679,423,000), (2020 – Kshs 122,168,768,000).

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2020 and 2021.

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

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

4.1.2 Other non-loan financial assets

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

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

All the non-loan financial assets are in stage 1 except for an amount of Kes 203 Million classified under other assets which is unsecured and subject to an arbitration process. The asset has been treated as a stage III and 100% provision taken.

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)

4.1.3 Concentration of risk

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

i) Advances to customers- Group and Bank

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

ii) Customer deposits

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

iii) Off balance sheet items

Letters of credit and guarantees	8,656,566	100	8,168,692	100
	8,656,566	**100**	**8,168,692**	**100**

Incorporation of forwardlooking information

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

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

NOTES (Continued)

4. Financial Risk Management disclosures (continued)
4.1 Credit risk (continued)
4.1.3 Concentration of risk (continued)
Incorporation of forwardlooking information (continued)

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

	2021	2022	2023	2024	2025
Inflation					
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3
Exchange rates	0.5	0.5	0.5	0.5	0.5
- Base scenario	0.2	0.2	0.2	0.2	0.2
- Range of upside scenarios	0.3	0.3	0.3	0.3	0.3
- Range of downside scenarios					
	0.5	0.5	0.5	0.5	0.5
Benchmark interest rates	0.2	0.2	0.2	0.2	0.2
- Base scenario	0.3	0.3	0.3	0.3	0.3
- Range of upside scenarios					
- Range of downside scenarios	0.5	0.5	0.5	0.5	0.5
	0.2	0.2	0.2	0.2	0.2
Reserves	0.3	0.3	0.3	0.3	0.3
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3

Sensitivity analysis

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

Set out below are the changes to the ECL as at 31 December 2021 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

Interest rates	-5% KShs000'	5% KShs000'
Term loans	3,024	6,904
Mortgages	143	321
Overdrafts and credit cards	185	417

NOTES (Continued)

4. Financial Risk Management disclosures (continued)

4.2 Liquidity risk

4.2.1 Management of liquidity risk

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

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

Liquidity risk is addressed through the following measures:

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

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

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

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

Exposure to liquidity risk

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

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

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

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

NOTES (Continued)

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

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

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

December 2021	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,110,892	8,249,490	17,137,543	11,587,472	-	83,085,397
Borrowings	-		-	4,560,795	3,943,903	8,504,698
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Capital commitments	-	-	154,986	-	-	268,829
Total financial liabilities	**51,144,700**	**8,249,490**	**17,436,648**	**16,148,267**	**3,943,903**	**97,036,851**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,700,646
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	**34,432,864**	**4,733,636**	**7,129,891**	**39,768,638**	**43,926,044**	**129,991,073**
(Gap)/surplus	**(16,711,836)**	**(3,515,854)**	**(10,306,757)**	**23,620,371**	**39,982,141**	**32,954,222**

NOTES (Continued)

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

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

31 December 2020	Upto 1 month Kshs 000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years Kshs 000	Over 5 years KShs'000	Total KShs'000
Balances due to banks	451,741	-	-	-	-	451,741
Customer deposits	42,475,979	7,596,800	21,070,700	97,590	-	71,241,069
Borrowings	-	-	2,796,343	483,709	-	3,280,052
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Capital commitments	-	-	169,986	-	-	169,986
Total financial liabilities	**44,475,159**	**7,700,518**	**24,313,610**	**1,432,875**	**340,630**	**78,262,792**
						-
Cash-in hand	4,038,446	-	-	-	-	4,038,446
Balances with CBK	4,841,075	-	-	-	-	4,841,075
Balances due from banks	819,406	-	-	41,634	8,944	869,984
Government securities	7,150,000	1,614,823	509,264	-	13,237,440	22,511,527
Loans and advances	4,312,814	2,426,547	5,304,225	41,300,861	26,761,322	80,105,769
Other investments	-	126,804	-	-	-	126,804
Other assets	1,385,077	-	-	-	-	1,385,077
Total financial assets	**22,546,818**	**4,168,174**	**5,813,489**	**41,342,495**	**40,007,706**	**113,878,682**
(Gap)/surplus	**(21,928,341)**	**(3,532,344)**	**(18,500,121)**	**39,909,620**	**39,667,076**	**35,615,890**

NOTES (Continued)

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

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

31 December 2021	Upto 1 month Kshs 000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years Kshs 000	Over 5 years KShs'000	Total KShs'000
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,629,907	8,249,490	17,137,543	11,587,472	-	83,604,412
Borrowings	-	-	-	4,560,795	3,943,903	8,504,698
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	-	-	-	1,613,430
Lease liabilities	1,139,178	69,016	184,037	566,639	226,655	1,139,178
Capital commitments		-	154,986	-	-	154,986
Total financial liabilities	**51,663,715**	**8,249,490**	**17,436,648**	**16,148,267**	**3,943,903**	**97,555,866**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	34,432,864	4,733,636	7,129,891	39,768,638	43,926,044	129,991,073
(Gap)/surplus	(17,230,851)	(3,515,854)	(10,306,757)	23,620,371	39,982,141	32,435,207

NOTES (Continued)

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

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

31 December 2020	Upto 1 month Kshs 000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years Kshs 000	Over 5 years KShs'000	Total KShs'000
Balances due to banks	451,741	-	-	-	-	451,741
Customer deposits	42,475,979	7,596,800	21,070,700	97,590	-	71,241,069
Borrowings	-	-	2,796,343	483,709	-	3,280,052
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Capital commitments		-	169,986	-	-	169,986
Total financial liabilities	**44,475,159**	**7,700,518**	**24,313,610**	**1,432,875**	**340,630**	**78,262,792**
						-
Cash-in hand	4,038,446	-	-	-	-	4,038,446
Balances with CBK	4,841,075	-	-	-	-	4,841,075
Balances due from banks	819,406	-	-	41,634	8,944	869,984
Government securities	7,150,000	1,614,823	509,264	-	13,237,440	22,511,527
Loans and advances	4,312,814	2,426,547	5,304,225	41,300,861	26,761,322	80,105,769
Other investments	-	126,804				126,804
Other assets	1,385,077	-	-	-	-	1,385,077
Total financial assets	**22,546,818**	**4,168,174**	**5,813,489**	**41,342,495**	**40,007,706**	**113,878,682**
(Gap)/surplus	**(21,928,341)**	**(3,532,344)**	**(18,500,121)**	**39,909,620**	**39,667,076**	**35,615,890**

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

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

NOTES (Continued)

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

4.3 Market risk

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

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

Management of market risks

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

i) Interest rate risk

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

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

NOTES (Continued)

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

(i) Interest rate risk - Group

31 December 2021	Non-interest bearing Kshs 000	0 – 3 months Kshs 000	4 – 12 months Kshs 000	1-5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
Financial liabilities						
Balances due to banks	-	2,281,200	-	-	-	2,281,200
Customer deposits	44,937,018	8,249,490	17,137,543	11,587,472	-	81,911,523
Borrowings	-	-	-	4,297,891	3,943,903	8,241,794
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Total financial liabilities	**47,689,626**	**10,530,690**	**17,281,662**	**15,885,363**	**3,943,903**	**95,331,244**
Financial assets						
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,011,007	164,957	73,985	-	9,450,697	24,700,646
Loans and advances	-	66,901,824	-	-	-	66,901,824
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	**28,517,659**	**67,066,781**	**1,429,965**	**-**	**9,450,697**	**106,465,102**
(Gap)/surplus	**(19,171,967)**	**56,536,091**	**(15,851,697)**	**(15,885,363)**	**5,506,794**	**11,133,858**

(i) Interest rate risk - Group

31 December 2020	Non-interest bearing Kshs 000	0 – 3 months Kshs 000	4 – 12 months Kshs 000	1-5 years Kshs 000	Over 5 Years Kshs 000	Total Kshs 000
Financial liabilities						
Balances due to banks	451,741	-	-	-	-	451,741
Customer deposits	42,252,708	7,458,408	19,965,605	80,049	-	69,756,770
Borrowings	-	-	2,635,038	382,111	-	3,017,149
Other liabilities	1,655,822	-	-	-	-	1,655,822
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Total financial liabilities	**44,394,844**	**7,562,126**	**22,877,224**	**1,313,736**	**340,630**	**76,488,560**
Financial assets						
Cash-in hand	4,038,446	-	-	-	-	4,038,446
Balances with CBK	4,841,075	-	-	-	-	4,841,075
Balances due from banks	819,406	-	-	35,737	6,590	861,733
Government securities	7,150,000	1,585,966	476,345	-	7,788,886	17,001,197
Loans and advances	-	56,579,798	-	-	-	56,579,798
Other investments	-	126,804	-	-	-	126,804
Other assets	1,421,545	-	-	-	-	1,421,545
Total financial assets	**18,270,472**	**58,292,568**	**476,345**	**35,737**	**7,795,476**	**84,870,598**
(Gap)/surplus	**(26,124,372)**	**50,730,442**	**(22,400,879)**	**(1,277,999)**	**7,454,846**	**8,382,038**

NOTES (Continued)

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

(i) Interest rate risk - Bank

31 December 2021	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	Kshs 000	KShs'000	KShs'000	Kshs 000	KShs'000	KShs'000
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	45,456,033	8,249,490	17,137,543	11,587,472	-	82,430,538
Borrowings	-	-	-	7,937,454	304,340	8,241,794
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	.-	-	-	1,613,430
Lease liabilities	1,139,178	69,016	184,037	566,639	226,655	1,139,178
Capital commitments		-	154,986	-	-	154,986
Total financial liabilities	**51,039,338**	**8,318,506**	**17,476,566**	**20,091,565**	**530,995**	**96,410,623**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	27,994,646	22,712,362	66,901,825
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	**34,394,727**	**4,733,636**	**7,129,891**	**27,994,646**	**32,163,059**	**106,415,959**
(Gap)/surplus	**(16,644,611)**	**(3,584,870)**	**(10,346,675)**	**7,903,081**	**31,632,064**	**10,005,336**

(i) Interest rate risk - Bank

31 December 2020	non-interest bearing	0 - 3 months	4-12 months	1 - 5 years	Over 5 years	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Balances due to banks	451,741			-	-	451,741
Customer deposits	42,475,979	7,497,820	20,071,107	80,472	-	70,125,378
Borrowings	-	-	2,635,038	382,111	-	3,017,149
Other liabilities	1,512,866	-	-	-	-	1,512,866
Lease liabilities	34,573	103,718	276,581	851,576	340,630	1,607,078
Total financial liabilities	**44,475,159**	**7,601,538**	**22,982,726**	**1,314,159**	**340,630**	**76,714,212**
Cash-in hand	4,038,446	-	-	-	-	4,038,446
Balances with CBK	4,841,075	-	-	-	-	4,841,075
Balances due from banks	819,406	-	-	35,737	6,590	861,733
Government securities	7,150,000	1,585,966	476,345	-	7,788,886	17,001,197
Loans and advances	-	56,579,798	-	-	-	56,579,798
Other investments	-	126,804	-	-	-	126,804
Other assets	1,385,077	-	-	-	-	1,385,077
Total financial assets	**18,234,004**	**58,292,568**	**476,345**	**35,737**	**7,795,476**	**84,834,130**
(Gap)/surplus	**(26,241,155)**	**50,691,030**	**(22,506,381)**	**(1,278,422)**	**7,454,846**	**8,119,918**

NOTES (Continued)

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

i) Interest rate risk (continued)

Sensitivity analysis

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

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

Assuming no management actions, a 10% appreciation in interest rates would increase net interest income by Shs 813 million (2021 – 703 Million), while a 10% depreciation in interest rated would decrease net interest income by Shs 813 Million (2021 – Shs 703,Million).

ii) Currency risk

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

31 December 2021	USD Kshs 000	GBP Kshs 000	EURO Kshs 000	Total Kshs 000
Financial assets				
Deposits and balances due from banking institutions	2,987,994	199,449	187,966	3,375,409
Financial liabilities				
Borrowings	(3,190,131)	-	-	(3,190,131)
Net currency exposure	**(202,137)**	**199,499**	**187,966**	**185,279**
31 December 2020				
Financial assets				
Deposits and balances due from banking institutions	643,765	65,139	200,753	909,657
Financial liabilities				
Borrowings	-	-	(451,741)	(451,741)
Net currency exposure	**643,765**	**65,139**	**(250,988)**	**457,916**

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

Sensitivity analysis

At 31 December 2021 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 29 million (31 December 2020: KShs 34million) lower/higher.

1.4 Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

NOTES (Continued)

4. Financial risk management disclosures (continued)
4.3 Market risk (continued)
ii) Currency risk (continued)

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

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

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

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

Group	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2021	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with CBK	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,584,768	-	16,469,837	13,584,768
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
Deposits from customers	-	-	83,085,397	83,085,397	81,911,523
Borrowings	-	8,504,698	-	8,504,698	8,241,794
Other financial liabilities	-	-	-	-	-
31 December 2020					
Cash and balances with CBK		8,879,521	-	8,879,521	8,879,521
Balances due from banking institutions	-	819,406	-	819,406	819,406
Loans and advances to customers	-	-	80,105,768	80,105,768	56,579,798
Government securities at amortised cost	-	11,786,464	-	11,786,464	8,901,395
Other investment	-	126,804	-	126,804	126,804
Other financial assets	-	374,556	-	374,556	374,556
				-	-
Deposits from customers	-	-	70,930,644	70,930,644	69,756,770
Borrowings	-	3,280,052	-	3,280,052	3,017,148
Other financial liabilities	-	997,437	-	997,437	997,437

NOTES (Continued)

4 Financial risk management (continued)
4.4 Fair value of financial assets and liabilities (continued)

Bank 31 December 2021	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
Cash and balances with CBK	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,573,762	-	16,458,831	13,573,762
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
Deposits from customers	-	-	83,604,412	83,604,412	82,430,538
Borrowings	-	8,504,698	-	8,504,698	8,241,794
Other financial liabilities	-	-	-	-	-

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

5 Capital Management

a) Regulatory capital

The Group's objectives when managing capital are:

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

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis. The Central Bank of Kenya requires each bank to:

a) Hold the minimum level of regulatory capital of Shs 1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 8 % of total deposit liabilities
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

NOTES (Continued)

5 Capital Management (continued)

a) Regulatory capital (continued)

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

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK

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

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

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

NOTES (Continued)

6 (a) Interest income

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

6 (b) investment income

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

7 Interest expense

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

* Interest on Lease liabilities were classified under operating expenses in the prior year and have been reclassified to interest expense to show consistency in the presentation with the current year.

8 Fees and commission income

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

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

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

NOTES (Continued)

9 Operating Expenses

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

10 Staff costs

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

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

NOTES (Continued)

11 Income tax

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

12 Earnings per share – Group & Bank

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

	Group		Bank	
	2021	2020	2021	2020
Profit (Kshs 000)	2,136,085	1,148,743	2,002,716	1,062,270
Weighted average number of shares during the year (000)	1,287,108	1,287,108	1,287,108	1,287,108
Earnings per share:				
Basic and diluted (Sh)	1.66	0.90	1.56	0.84

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

NOTES (Continued)

13 Cash and balances with CBK- Group and Bank

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

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2021, the cash ratio reserve requirement was 4.25% (2020 – 4.25%) of all customer deposits held by the Bank. These funds are available for use by the company in its day-to-day operations in a limited way provided that on any given day, this balance does not fall below the 3% requirement and provided that the overall average in the month is at least 4.25%.

14 Balances due from banking institutions – Group and Bank

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

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

NOTES (Continued)

15 Government securities

	Group		Bank	
	2021	2020	2021	2020
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Treasury bills and bonds – at amortised cost	13,584,768	8,901,395	13,573,762	8,901,395
Treasury bonds at fair value through other comprehensive income	9,546,922	7,033,006	9,546,922	7,033,006
Treasury bonds at fair value through profit and loss	1,568,955	1,066,797	1,568,955	1,066,797
	24,700,645	**17,001,198**	**24,689,639**	**17,001,198**
The maturity profile of government securities is as follows:				
Maturing within one year	13,199,725	9,212,311	13,199,725	9,212,311
Maturing between 2 to 5 years	-	-	-	-
Maturing after 5 years	11,500,920	7,788,886	11,489,914	7,788,886
	24,700,645	**17,001,197**	**24,689,639**	**17,001,197**

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

16 Loans and advances to customers- Group & Bank

a) Loans and advances at amortised cost

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

Significant changes in the gross carrying amounts of loans and advances to customers that contributed to movements in loans and advances were new loans advanced in the year and loan repayments.
The movement in the loans and advances are disclosed under note 4

The weighted average effective interest rate on advances to customers at 31 December 2021 was 12.91% (2020 – 12.98 %). The related party transactions and balances are covered under Note 35 and concentration of advances to customers is covered under Note 4.

NOTES (Continued)

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

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

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

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

17 Contingencies and commitments including off balance sheet items

a) Contingent liabilities

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

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

NOTES (Continued)

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

Nature of contingent liabilities:

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

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

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

Concentrations of contingent liabilities are covered under note 4.

Litigations against the Group

Litigations against the group relate to civil suits lodged against the group by customers and employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The directors, however, do not anticipate that any liability will accrue from the pending suits.

(b) Commitments to extend credit

Commitments to extend credit are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The group may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

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

(c) Capital commitments

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

18 Other assets

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

All other assets are current.

NOTES (Continued)

19 Other investments

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

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

20 Investment in subsidiary

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

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

NOTES (Continued)

21 Investment properties - Group & Bank

For the year ended 31 December

	2021 KShs '000	2020 KShs '000
At start and end of year	23,400	23,400
Fair value gains	-	-
At end of year	**23,400**	**23,400**

Investment property relates to Leasehold land valued at Shs 23,400,000 (acquired at a cost Shs 3,170,000).
Amounts recognised in statement of profit or loss:

Fair value gains	-	5,200

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

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

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

	Level 1 Kshs. '000	Level 2 Kshs '000	Level 3 Kshs. '000	Total Kshs. '000
31 December 2021				
Investment properties	-	-	23,400	23,400
31 December 2020				
Investment properties	-	-	23,400	23,400

Valuation technique used to derive level 3 fair values

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

NOTES (Continued)

22 Property and Equipment- Group

Cost/ Valuation	Freehold Land Kshs 000	Buildings Kshs 000	Leasehold improvements Kshs 000	Computer Kshs 000	Motor vehicles Kshs 000	Fixtures, fittings and equipment Kshs 000	Total Kshs 000
Year ended 31 December 2020							
At 1 January 2020	590,000	460,000	2,781,063	2,181,161	121,037	1,384,327	7,517,588
Additions	-	-	64,651	96,112	-	49,030	209,793
31 December 2020	**590,000**	**460,000**	**2,845,714**	**2,277,273**	**121,037**	**1,433,357**	**7,727,381**
Depreciation							
At 1 January 2020	-	-	2,013,265	1,989,251	105,648	899,428	5,007,592
Charge for the year	-	11,099	215,622	144,028	9,291	128,748	508,788
At 31 December 2020	-	11,099	2,228,887	2,133,279	114,939	1,028,176	5,516,380
Net book value							
At 31 December 2020	**590,000**	**448,901**	**616,827**	**143,994**	**6,098**	**405,181**	**2,211,001**
Year ended 31 December 2021							
At 1 January 2021	590,000	460,000	2,845,714	2,277,273	121,037	1,433,357	7,727,381
Additions	-	-	72,189	169,812	17	38,632	280,650
At 31 December 2021	**590,000**	**460,000**	**2,917,903**	**2,447,085**	**121,054**	**1,471,989**	**8,008,031**
Depreciation							
At 1 January 2021	-	11,099	2,228,887	2,133,279	114,939	1,028,176	5,516,380
Charge for the year	-	11,099	200,429	91,949	2,666	123,531	429,674
At 31 December 2021	-	22,198	2,429,316	2,225,228	117,605	1,151,707	5,946,054
Net book value							
At 31 December 2021	**590,000**	**437,802**	**488,587**	**221,857**	**3,449**	**320,282**	**2,061,977**

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

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

NOTES (Continued)

22 Property and Equipment- Bank

Cost/ Valuation	Freehold land Kshs 000	Buildings Kshs 000	Leasehold improvements Kshs 000	Computer Kshs 000	Motor vehicles Kshs 000	Fixtures, fittings and Equipment Kshs 000	Total Kshs 000
Year ended 31 December 2020							
At 1 January 2020	590,000	460,000	2,781,063	2,176,837	117,024	1,388,223	7,513,147
Additions	-	-	64,651	95,931	-	49,030	209,612
31 December 2020	**590,000**	**460,000**	**2,845,714**	**2,272,768**	**117,024**	**1,437,253**	**7,722,759**
Depreciation							
1 January 2020	-	-	2,013,265	1,988,649	104,845	898,815	5,005,574
Charge for the year	-	11,099	215,622	143,847	9,530	127,196	507,294
31 December 2020	**-**	**11,099**	**2,228,887**	**2,132,496**	**114,375**	**1,026,011**	**5,512,868**
Net book value							
31 December 2020	**590,000**	**448,901**	**616,827**	**140,272**	**2,649**	**411,242**	**2,209,891**
Year ended 31 December 2021							
1 January 2021	590,000	460,000	2,845,714	2,272,768	117,024	1,437,253	7,722,759
Additions	-	-	72,189	169,812	17	38,632	280,060
31 December 2021	**590,000**	**460,000**	**2,917,903**	**2,442,580**	**117,041**	**1,475,885**	**8,003,409**
Depreciation							
1 January 2021	-	11,099	2,228,887	2,132,496	114,375	1,026,011	5,512,868
Charge for the year	-	11,099	199,276	92,614	2,666	123,500	429,155
31 December 2021	**-**	**22,198**	**2,428,163**	**2,225,110**	**117,041**	**1,149,511**	**5,942,023**
Net book value							
31 December 2021	**590,000**	**437,802**	**489,740**	**217,470**	**-**	**326,374**	**2,061,386**

In accordance with IFRS 13, the fair value ranking of the freehold land and buildings is at Level 3. The net book value of the building had revaluation not taken place would have been Ksh 302,005,000 (2020: Ksh 302,005,000)

NOTES (Continued)

23 Intangible assets – Computer software

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

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

24 Prepaid operating lease rentals- Group and Bank

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

NOTES (Continued)

25 Customer deposits

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

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

The Weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 8.42% (2020 – 8.02 % The related party transactions and balances are covered under Note 35 and concentration of customers' deposits is covered under Note 4.

NOTES (Continued)

26 Borrowings – Group & Bank

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

NOTES (Continued)

26 Borrowings – Group & Bank

The table below summarises the terms for the borrowings:

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

27 Group and Bank provisions and other liabilities

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

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

Other liabilities are current.

NOTES (Continued)

28 Deferred income tax

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

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

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

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

Deferred income tax asset (Group and Bank)	Balance at 1 January	Prior year over/(under) provision	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
2021	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
Property and equipment	144,365	31,233	197,858	-	373,456
Other deductible differences	1,408,314	-	23,340		1,431,654
	1,552,679	**31,233**	**221,198**	**-**	**1,805,110**
2020					
Property and equipment	47,300	26,440	70,625	-	144,365
Other deductible differences	838,242	-	565,939	4,133	1,408,314
	885,542	**26,440**	**636,564**	**4,133**	**1,552,679**

NOTES (Continued)

28 Deferred income tax (continued)

Deferred income tax liability (Group)	Balance at 1 January	Prior year (over)/under provision	Recognised in profit or loss	Balance at 31 December
2021	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Property and equipment	1,276	29	(394)	911
Other deductible differences	(150)	-	-	(150)
	1,126	**29**	**(394)**	**761**
2020				
Property and equipment	1,525	29	(278)	1,276
Other deductible differences	(104)	-	(46)	(150)
	1,421	**29**	**(324)**	**1,126**

29 Share Capital

	2021	2020
	Kshs 000	Kshs 000
Authorised:		
1,500,000,000 ordinary shares of Sh 1 each	1,500,000	1,500,000
Issued:		
1,287,107,542 ordinary shares of Sh 1 each	1,287,108	1,287,108

Movement in issued and fully paid shares

	Number of shares	Share capital	Share premium	Total
		Sh '000	Sh '000	Kshs 000
1 January 2020	1,287,107,542	1,287,108	5,874,662	7,161,770
31 December 2020	**1,287,107,542**	**1,287,108**	**5,874,662**	**7,161,770**
1 January 2021	1,287,107,542	1,287,108	5,874,662	7,161,770
31 December 2021	**1,287,107,542**	**1,287,108**	**5,874,662**	**7,161,770**

There was no change in the share capital for the year ended 31 December 2021.

NOTES (Continued)

30 Other reserves

30.1 Revaluation surplus

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

30.2 Statutory reserve

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

30.3 Fair value reserve

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

31 Notes to the statement of cash flows

Reconciliation of profit before taxation to cash flow from operations

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

31 Notes to the statement of cash flows (continued)

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

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

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

32 Operating segments

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Group basis and are not allocated to operating segments.
The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses.
No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2021or 2020.
The following table presents income and profit and certain asset and liability information regarding the Group's operating segments,

NOTES (Continued)

32 Operating segments (continued)

Profit or loss for the year ended 31 December 2021

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

Profit or loss for the year ended 31 December 2020

	Wholesale banking	Retail banking	Other	Total
Interest income	3,754,690	5,632,036	-	9,386,726
Interest expense	(1,038,359)	(1,557,538)	-	(2,770,700)
Net interest income	2,716,332	3,899,695	-	6,616,026
Fee and commission income	708,711	1,063,066	167,979	1,939,756
Fee and commission expense	(109,457)	(164,186)	-	(273,643)
Net fees and commission income	599,254	898,880	167,979	1,666,113
Investment income	47,750	71,625	-	119,375
Net trading income	136,545	204,817	-	341,362
Other income	160,074	240,111	-	400,185
Operating income	3,659,954	5,489,931	167,979	9,317,864
Operating expenses	(2,230,465)	(3,170,893)	(72,066)	(5,473,424)
Credit impairment losses	(891,593)	(1,337,390)	-	(2,228,983)
Profit before taxation	537,896	806,844	95,913	1,440,653
Income tax expense	(99,826)	(149,739)	(28,568)	(278,133)
Other comprehensive income	-	(13,777)	-	-
Profit for the year	**438,070**	**643,328**	**67,345**	**1,148,743**

NOTES (Continued)

32 Operating segments (continued)

Statement of financial position as at 31 December 2021

	Wholesale banking Sh' 000	Retail banking Sh' 000	Others Sh' 000	Total Sh' 000
Assets	44,440,048	66,714,001	582,946	111,736,995
Liabilities and equity:	44,752,446	67,128,669	-144,119	111,736,995
Inter-segment lending	(171,226)	(256,840)	428,066	
Total liabilities and equity	**44,581,219**	**66,871,829**	**283,947**	**111,736,995**
Other disclosures				
Capital expenditure	**126,538**	**189,806**	**-**	**-**

Statement of financial position as at 31 December 2020

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

NOTES (Continued)

33 Leases

The Bank as a lessee

(a) Right of use asset

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

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

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

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

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

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

NOTES (Continued)

33 Leases(continued)

The Bank as a lessee

(b) Lease liabilities

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

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

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

34 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

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

NOTES (Continued)

34 Related party transactions (continued)

As at 31 December 2021 loans and advances to staff amounted to Sh 1,451,377,000 (2020 – Sh 1,381,113,000). The loans and advances to related parties are performing and adequately secured.

	Directors	Companies associated to directors	Total
	Sh '000	Sh '000	Sh '000
(b) Deposits – Group and bank			
1 January 2020	9,947	5,510	15,457
Withdrawals	-	-	-
31 December 2020	**9,947**	**5,510**	**15,457**
1 January 2021	9,947	5,510	15,457
Deposits	584,503	1,768,181	2,352,684
Withdrawals	(177,225)	(336,341)	(513,566)
31 December 2021	**417,225**	**1,437,350**	**1,854,575**

Key management compensation

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

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

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PROXY FORM

Shareholder's Name: ..... ID / Reg No. : .....

Share Account No. .....

The Company Secretary
Family Bank Limited
8th Floor, Family Bank Towers.
P. O. Box 74145-00200
Nairobi

PROXY FORM

I/We ..... of P. O. Box .....
being a shareholder(s) of Family Bank Limited, appoint

Name: .....
Postal Address: .....
ID No.: .....
Mobile Number: .....
Email Address: .....

and failing him / her, the chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Bank to be held on Friday 29th April 2022 at 9:00 am via electronic communication and / or at any adjournment thereof. This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he/she deems fit.

As witnessed by my/our hand(s) this .....day of 2022

Signed..... Signed.....

ID No..... ID No.....

NOTES

1. A member who is unable to attend the virtual meeting is entitled to appoint a proxy to access and vote on his or her behalf.

2. In the case of a corporate body, the proxy must be under its common seal or under the hand of an officer or attorney duly authorized in writing.

3. Joint account holders must state their joint names and sign according to their signing mandates.

4. A completed form of proxy should be emailed to familybankagm@image.co.ke and copy to shares@familybank.co.ke or delivered to Image registrars at 5th floor, ABSA Towers (Formerly Barclays Plaza), Loita Street or Shares Registry Office at Family Bank Towers, 8th Floor, so as to be received not later than Tuesday 28thApril 2022 at 11:00AM. When nominating a proxy the ID/Passport No, email and/or mobile number details of the proxy must be submitted to facilitate registration.

5. Any proxy registration that is rejected will be communicated to the Shareholders concerned within 12 hours to allow time to address any issues.

6. Shareholders wishing to raise any questions for the AGM may do so prior to the AGM by sending an email to familybankagm@image.co.ke or shares@familybank.co.ke (During the registration open period).

7. A proxy need not be a member.

Family Bank
With you, for life

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Email: info@familybank.co.ke | Website: www.familybank.co.ke