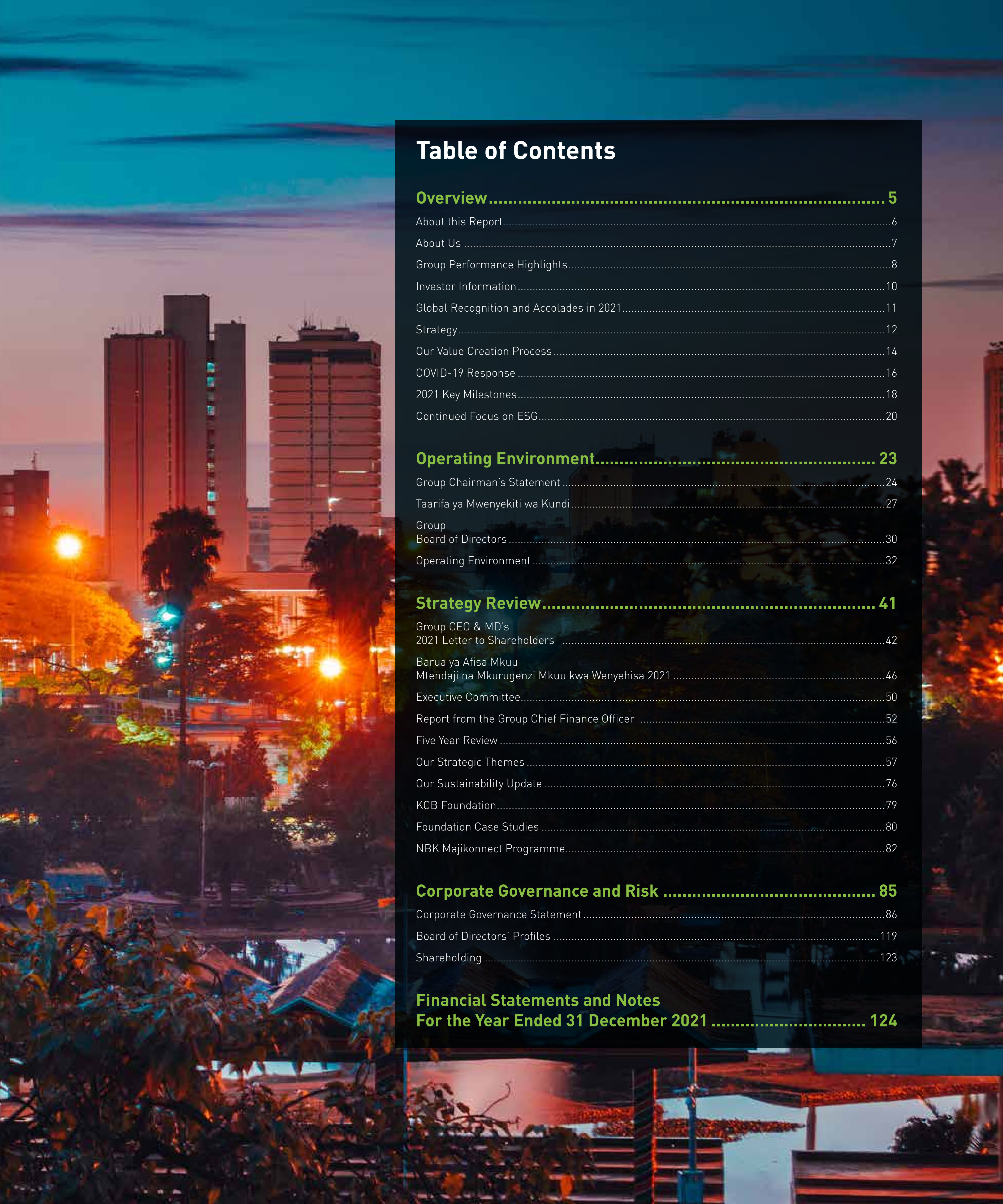
KCB

2021 INTEGRATED REPORT & FINANCIAL STATEMENTS

Regulated by the Central Bank of Kenya

View of Nairobi City from Uhuru Park Nairobi, Kenya.



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Ethiopian coffee served with aromatic essence. Buna, Ethiopia.

Overview

About this Report

Scope and Purpose

The KCB Group Plc Integrated Report and Financial Statements is our principal statutory and regulatory reporting disclosure for 2021. It covers the primary activities of the Group across all our regional markets and gives a comprehensive review of our financial and non-financial metrics. The report highlights how we execute our strategy, strive to operate sustainably, create shared value and govern our business. It covers the period from January 1, 2021 to December 31, 2021. Furthermore, notable material events after this period and until the publishing of this report on 10 May 2022 have been included.

The goal of this report is to provide our stakeholders with a complete and integrated view of how our company operates. It also provides vital information to our present and future investors to enable them make informed decisions. It demonstrates our commitment to accountability and aims to strengthen the trust our stakeholders have bestowed upon us. Forward-looking statements are not guarantees of future financial or operating results as they involve assumptions of future conditions in the operating environment some of which are not within the Group's control. A trove of periodic financial results and other information is available on www.kcbgroup.com to supplement the disclosures in this report.

Framework

This report was developed in accordance with international best practices, reporting guidelines and prudent accounting standards. It complies with the Kenya Companies Act of 2015, the Capital Markets Authority's (CMA) rules, the Nairobi Securities Exchange's (NSE) Listings Manual, and the Central Bank of Kenya's (CBK) Prudential Guidelines. This report follows the guidelines of the International Integrated Reporting Council (IIRC).

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRC Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act of 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and have been prepared on the historical cost basis except where it is indicated otherwise.

The Group continuously strives to incorporate additional frameworks and metrics in our reporting to improve our transparency and meet the diverse information needs of our stakeholders. Please provide any feedback or direct your questions to investorrelations@kcbgroup.com for any additional information on matters contained within this report.

Process and Assurance

Our Integrated Report process started with a widescale review of all key developments in executing our strategy across our businesses in 2021 to inform the scope of reporting. Content development involved interviews and submissions from divisional directors and managing directors of our subsidiaries. Thereafter, we adopted an integrated approach to messaging to present a unified and all-rounded view of the Group's inputs, processes, outputs, and outcomes.

A series of rigorous internal reviews support the accuracy of the disclosures contained herein. This is further corroborated by the external assurance provided by our Auditors through their opinion on our financial statements as expressed within this report. This report was reviewed by the Board Audit and Risk Committee and recommended to the Group Board for their approval. The Directors accept responsibility for the preparation and presentation of this report.

PricewaterhouseCoopers LLP audited the Group's annual financial statements, as well as those of KCB Bank Kenya, National Bank of Kenya, KCB Bank Tanzania, KCB Bank Rwanda, KCB Bank South Sudan and Banque Populaire du Rwanda. KPMG and Ernst & Young audited the financial statements of KCB Bank Burundi and KCB Bank Uganda respectively.

Overview

About Us

KCB Group Plc ("KCB" or the "Group" or the "Bank" or on the NSE:KCB) is a non-operating holding company incorporated in Kenya. It is a leading financial solutions provider with over 125 years of expertise in supporting economic development in East Africa by simplifying our customers' world to enable their progress. The Group was established in 1896 and is headquartered in Nairobi, Kenya. The country also serves as our lead market with two banking subsidiaries namely KCB Bank Kenya and National Bank of Kenya. The former is a leading bank in the country with significant market share in total assets, revenue, customer base as well as physical and digital distribution channels.

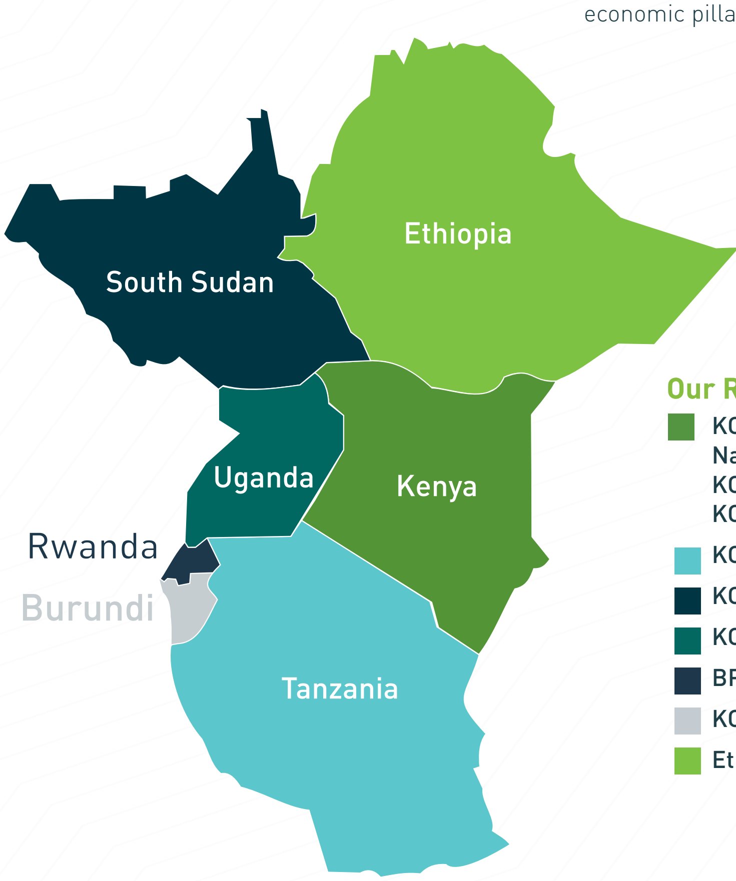
Our regional subsidiaries' network spans five other countries with banking operations in Tanzania, South Sudan, Uganda, Rwanda, Burundi, and a representative office in Ethiopia. In 2021, the Group completed the acquisition of a majority stake in Banque Populaire du Rwanda, the country's second-largest lender. KCB also has several non banking subsidiaries in its fold to maximize on the opportunities available in the financial services value chain. These include the KCB Bancassurance Intermediary Limited (formerly, KCB Insurance Agency Limited), KCB Capital and other associate companies. A full list of these companies, areas of activity and a breakdown of the size of the Group's shareholding is available on page 222 of this report.

The Group champions the creation of shared value through its corporate social responsibility arm, KCB Foundation, which runs several programmes in youth employment, support to livestock farmers and high school and university scholarships.

With over 28 million customers, the Group has been a catalyst for development for more than a century, facilitating growth and economic advancement, promoting regional commerce, and linking millions of people throughout the world to possibilities on the African continent and beyond, all while having a significant social impact in communities. We provide a suite of financial services through two key segments of corporate and retail banking to meet the diverse needs of our customers. The Bank also offers digital financial services, insurance products, investment banking and shariah-compliant products.

The Group has been listed on the Nairobi Securities Exchange (NSE) since 1988. It has since been cross-listed on the Dar-es-Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE), and Rwanda Stock Exchange (RSE). As at the end of 2021, the Group had 193,274 individual and institutional shareholders.

KCB has consistently invested in deepening its sustainability agenda, which is based on building a responsible business for the future, with a particular focus on the environmental, social, financial, and economic pillars.



Our Regional Presence

- KCB Bank Kenya
  National Bank of Kenya
  KCB Bancassurance Intermediary Limited
  KCB Capital
- KCB Bank Tanzania
- KCB Bank South Sudan
- KCB Bank Uganda
- BPR Bank Rwanda
- KCB Bank Burundi
- Ethiopia (Representative Office)

492
Branches
1,178 ATMS
25,126 Agents & POS Merchants

28.4M
Customers

8,538
Staff

KShs. 171.7B
Total equity attributable to equity holders of KCB Group Plc

Overview

Group Performance Highlights

Financial

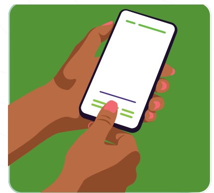
	2020	2021
Profit before income tax (KShs. Million)	25,719	47,815
Net loans and advances (KShs. Million)	595,255	675,481
Non-performing loans (KShs. Million)	107,930	121,660
Customer deposits (KShs. Million)	767,224	837,141
Dividends (KShs. Million)	3,213	9,640
Total debt / total equity	26.0%	21.6%
Market capitalization (KShs. Million)	122,433	146,031
Return on average equity	14.4%	22.4%
Cost-to-income ratio	45.0%	44.0%

Non-Financial

	2020	2021
Net promoter score	51	53
Customer complaints	836,968	846,256
Total employee benefits (KShs. Million)	20,511	25,070
Reduction in greenhouse gas emissions	23%	11%
Reams of paper used	53,557	39,609
Water use (Million Litres)	126	86
Electricity consumption at Kencom head office (Million Kw/h)	13.5	12.3
Proportion of female employees	45%	46%
Number of staff health and safety incidences at the workplace	3	0

Overview

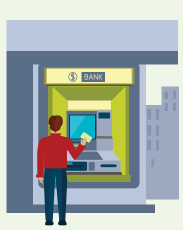
Mobile Loans Advanced (KShs.)

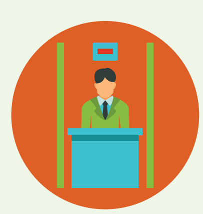
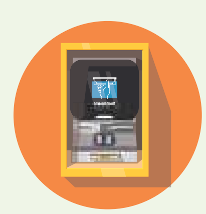


- 2017: 29.6 billion
- 2018: 54.4 billion
- 2019: 212.1 billion
- 2020: 154.0 billion
- 2021: 157.6 billion

Number of Channel Transactions (Millions)

	Mobile	Agency	Merchant /POS	Branch Teller	ATMs	Internet Banking
YoY	53%	23%	58%	3%	(6%)	83%
2021	399.5	56.6	12.6	11.2	10.9	5.5
2020	260.8	46.0	8.0	10.9	11.6	3.0


Overview

Investor Information

KCB Share Information

Number of issued shares	3,213,462,815
Total number of authorized shares	4,500,000,000
Number of shareholders as at 31 December 2021	193,274
Primary listing exchange	Nairobi Securities Exchange
Ticker	KCB
Listing year	1988
Cross listed exchanges	Dar-es-Salaam Stock Exchange Uganda Securities Exchange Rwanda Stock Exchange
Free float	72%
Closing share price on 31 December 2021	KShs. 45.45
Price appreciation in 2021	19.3%
Market capitalization as at 31 December 2021	KShs. 146.1 billion
Price/book	0.8x
Earnings per share	KShs. 10.61
Dividend per share	KShs. 3.00
Dividend policy	Up to 50% of distributable profits
Total shareholder's equity	KShs. 171.7 billion

2022 Investor calendar

Date	Event
16 March 2022	FY 2021 Financial Results Announcement
25 May 2022	Q1 2022 Financial Results Announcement
3 June 2022	Annual General Meeting
17 August 2022	H1 2022 Financial Results Announcement
16 November 2022	Q3 2022 Financial Results Announcement

Shareholders per category

6,628 Local Institutional Investors 62.9%

185,965 Local Individual Investors 26.5%

681 Foreign Investors 10.6%

Major shareholders (Above 5%)

Entity	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.8%
National Social Security Fund	263,731,809	8.2%

As at 31 December 2021

Global Recognition and Accolades in 2021

We take pride in having consistently been rated and ranked amongst the leading financial institutions in the continent based on various parameters. In 2021, we received over 15 accolades from different local and international organisations, which go a long way in cementing our leadership position and affirming our resolve to deliver the very best in customer experience and drive a digital future.

Rating

B2 (Negative) rating from Moody's affirmed in October 2021.

Credit rating at par with the sovereign rating.

The Banker Magazine Top 1,000 Banks

KCB ranked 685th Globally, 20th in Africa, 1st in Eastern Africa

Best Bank in Kenya by:
- Global Finance World's Best Bank Awards.
- Global Business Outlook Awards.
- World Economic Magazine Awards.

Best Bank in Kenya and Africa's Best Responsibility Bank by Euromoney Global Awards.

Safest Bank in Africa by Global Finance.

Best Sustainable Bank by International Business Magazine.

Most Socially Responsible Bank in Kenya by Finance Derivative Awards.

Best ESG solution by Middle East & Africa Innovations Awards.

Fortune Change the World ranked KCB Group 8th Globally for community support and service to society.

Best Bank in Kenya for Customer Experience, Digital and Innovation by Global Brands Magazine Awards.

Best in Digital Banking, Product Marketing and Mortgage Finance by Think Business Awards.

Best Corporate and Best Retail Bank by Global Banking and Finance Awards.

Overview

Strategy

Our Purpose
Simplifying your world to enable your progress

Our Vision
To be the preferred financial solutions provider in Africa with global reach.

2020

Our Mission
To drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach.

Strategy Pillars

- Customer first, with leading value propositions
- Step change in efficiency and productivity
- Digital leader and digital to the core
- Scale to achieve regional relevance

What Drives Us

Financial
- PBT
- Efficiency
- Shareholder Value

Customer Perspective
- Customer Experience
- Market Share
- Shared Value

Internal Business Process
- System Reliability
- Sustainability
- Control Environment

Learning and Growth
- Staff Productivity
- Staff Development
- Culture Change

2023

Our Values
• Inspiring • Simple • Friendly

Our Behavior
- I am a leader
- I find solutions
- I drive efficiency
- I simplify work
- I listen and care
- I am positive and committed

Our Promise
Go Ahead

How we achieve it

1
- Modern IT Architecture, Processes, Capabilities and Talent

2
- Enhance End-to End (E2E) Credit and Enterprise Risk Management.

3
- Rigorous Performance Management with Enabling Culture and Organisation Structure

2021 Performance

- Agents & Merchants – 25,126
- Net Promoter Score – 53
- Number of customers – 28.4M
- Brand power – 29%

- Earnings per Share –KShs. 10.61
- Dividend per share – KShs. 3.00
- ROE – 22.4%
- Debt to Equity – 21.6%

- No. of staff – 8,538
- Staff cost to income ratio – 22.9%
- Revenue per staff – KShs.13.6M
- Social Capital – KShs. 399M

- Net Loans & Advances – KShs. 675.5B
- Customer Deposits – KShs.837.1B
- Asset Yield – 10.4%

- Mobile Loans – KShs.157.6B
- Non-Funded Income Ratio – 28.5%

- Cost-to-Income Ratio – 44.0%
- NPL Ratio – 16.5%
- Cost of Risk – 2.0%
- Cost of Funds – 2.8%

Overview

Our Value Creation Process

Inputs

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Financial

Equity : KShs. 171.7B

Deposits : KShs. 837.1B

Borrowings : KShs. 37.6B

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Manufactured

- 492 branches
- 1,178 ATMs
- 25,126 Agents and POS/Merchants
- 98% of transactions conducted outside the branch network

Intellectual

vooma

- Vooma
- Partner kwa Ground

Process

1 Customer first, with leading value propositions

2 Step change in efficiency and productivity

Outputs

Accounts

We enable the progress of our customers through various money management solutions:
- Current
- Transactional
- Mobile
- Savings

Payment Transactions

Enabling Funds transfer through:
- Mobile
- Agents
- Internet
- POS/Merchants
- Branches
- ATMs

Loans

We extend credit, in corporating responsible lending practices servicing:
- Personal
- Corporate
- SME
- Micro

Investments

Generation of yields by way of:
- Fixed Deposit Receipt
- Call
- Custody
- Savings products

Forex

Provision of brokerage services to buy and sell foreign currencies through:
- SWAPS
- Swift
- Futures
- T-Bill/Bonds
- Savings products

People

Career development & advancement opportunities to ensure we attract and retain top talent

Overview

1 NO POVERTY

10 REDUCED INEQUALITIES

17 PARTNERSHIPS FOR THE GOALS

Human
- Staff count: 8,538
- Average tenure: 9.0 years
- Revenue per staff: KShs. 13.6M

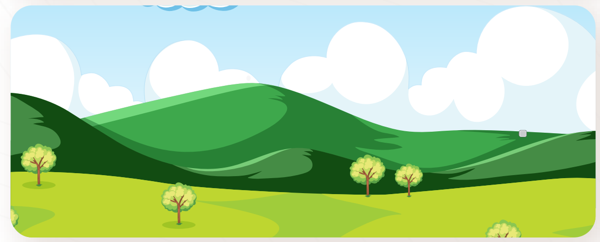
Social
- 28.4 million customers
- KShs. 45 billion advanced under women proposition
- Strategic Partnerships
- 49 inaugural university scholarships provided in 2021

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE

Natural
- Carbon-neutral operations
- Monitored resource usage (water, fuel, power and paper)
- KCB Green Agenda



3

Digital Leader and Digital to the Core

4

Scale to achieve regional relevance

Outcomes

Investors
- Return on average equity: 22.4%
- Return on assets: 3.2%
- Earnings per share: KShs. 10.61
- Dividends per share: KShs. 3.00

Customers
- 496.4M transactions facilitated across all channels
- KShs. 80.2B growth in net loans advanced in 2021
- KShs. 69.9B growth in deposits mobilized in 2021
- KShs. 2.1T transacted on mobile in 2021

Employees
- KShs. 25.1 B salaries and benefits paid
- Average tenure: 9.0 years
- 454 promotions in 2021
- OHI score of 79 in 2021
- Staff cost to income ratio 22.9%

Regulators
- Continuous streamlining with all required regulations
- Corporation tax expense in 2021: KShs. 13.6B

Communities
- KShs. 11.2B distributed to the elderly and disabled
- Reduction of resource usage: 17%
- Reduction in carbon footprint: 11%

Suppliers
- Average supplier performance of 89% on all deliverables
- 38% of procurement contracts awarded to special interest groups
- 313 suppliers signed up to the code of ethics

Overview

COVID-19 Response

Leadership in the time of the pandemic

Since the outbreak of COVID-19 in 2020, East Africa, just like the rest of the world continues to face health and economic challenges brought about by the pandemic. Although the impact of the outbreak on health in the region has been relatively mild compared with other parts of the world, the economic impact has been severe, reversing years of progress made in reducing poverty and boosting economic development and growth. In response, KCB continued to extend support to our communities, employees, and customers affected by this unprecedented global crisis. Our goal is to ensure that we all emerge on the other side of the pandemic stronger.

All these interventions were geared toward limiting the spread of the virus and easing the related economic hardships faced by the communities in which KCB operates. Through our various interventions, we demonstrated that KCB is the partner that truly cares for those within its community and is genuinely interested in enabling progress.

1 Our Customers

Over the past two years, the Bank has affirmed its commitment to support our customers to weather the pandemic. In 2021, we prioritised funding to households and small and medium-size enterprises to power their recovery from the disruptions in 2020. We rolled out an MSME campaign to provide more financing to this key segment to boost their working capital. To achieve this, we reviewed the loan appraisal process and enhanced limits to ensure more financing is available to these customers. We also provided training to MSMEs through our Biashara club programme and signed onto credit guarantee schemes with the county and national governments as well as international development partners to enhance flow of credit to this segment.

KCB also leveraged digital technology to ensure our customers transacted seamlessly and safely from the comfort of their homes and premises. We bolstered system capacity and reliability and enhanced sensitization of customers on cybersecurity.

Moreover, the Bank continued to provide relief accommodation through loan moratoriums for some customers in sectors which were still strained because of the pandemic such as the hospitality, manufacturing, trade, and building and construction sectors.

Across our branch networks and offices, we provided sanitation points, temperature checks and enforced mask mandates and physical distancing to ensure safety for all our customers.

2 Our employees

At the start of the year, KCB continued to support the setting up of home offices, provided internet connectivity, and a closed user group for phone communications to enable employees to conveniently work from home. For our employees whose roles necessitated them to work from their primary sites, we provided face masks, hand sanitiser, and infrared thermometers at all workplaces. We also rolled out flexible working policies to facilitate the deployment of teams to work in shifts at the head office and across branches.

Health talks and training were also held to raise awareness and break the stigma surrounding the pandemic. Through our healthcare partners, the Group gained additional access to specialised therapy, ambulance services, and counsellors to provide psychological support. The Bank also catered for inpatient bills for affected staff.

When the region rolled out vaccines in mid-2021, the Group facilitated the provision of these vaccines to our staff and families in partnership with health authorities. We sensitized our staff on the benefits of taking the vaccine and even without a vaccine mandate in place, we achieved a vaccination rate of 98%. This facilitated a full return of all employees to their primary working sites by December 2021.

3 Our communities

Just like most sectors in the economy, our communities were adversely affected by the COVID-19 containment measures. Many people lost their jobs and sources of livelihood, fuelling a significant rise in unemployment rates. To help secure livelihoods, through our Foundation's 2Jiajiri programme, we trained over 2,500 young people across the country on technical and financial skills and supported over 275 beneficiaries to establish new enterprises. The support extended to these beneficiaries included provision of 137 tool kits and disbursements of over KShs. 38 million in start-up capital. We also trained over 2,000 young people on business development concepts leading to establishment of 485 youth-led MSMEs in agriculture and manufacturing.

The Group also supported COVID-19 awareness drives to sensitize our communities on preventive measures and encourage uptake of vaccines through targeted media campaigns on television and radio channels as well as sponsorship programmes.

We also facilitated disbursement of over KShs. 11 billion to more than half a million beneficiaries of the Government of Kenya's Inua Jamii social protection safety net programme for vulnerable groups.

To support local supply chains, we increased the value of procurement contracts awarded to SMEs and special interest groups including youth and women-owned enterprises and those owned by persons living with disabilities to 38%.

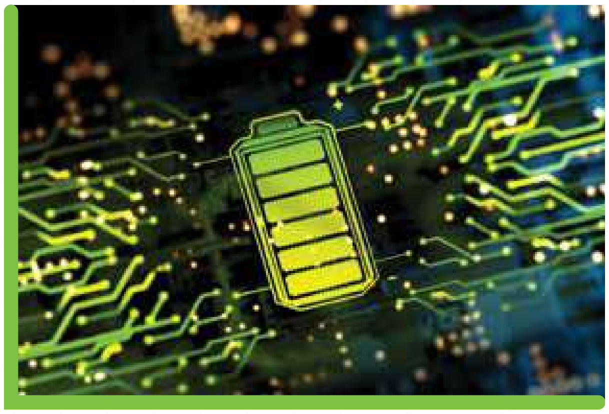
4 For our shareholders

We tapped on digital platforms to hold our second virtual annual general meeting. We also leveraged these platforms to enhance the frequency of our investor engagements through regular online meetings and virtual conferences to provide comprehensive communication to the market on the Group's performance.

In addition, despite the pandemic-induced hit on businesses necessitating bolstering of reserves and capital preservation, we paid out KShs. 6.4 billion in a first and final dividend for the 2020 financial period, and interim dividend for the 2021 period. A further KShs. 6.4 billion has been recommended by the Board of Directors, totaling to KShs. 12.8 billion over the COVID-19 period. (KShs 3.2 billion in 2020 and KShs 9.6 billion in 2021)

Overview

2021 Key Milestones



January

- NBK upgraded its business management process system to enhance efficiency and improve turnaround time in the account opening process through the automation of customer screening and data capture.
- KCB Rwanda implemented a POS converged solution to enhance efficiency by utilizing one POS for agency banking and merchant business.

February

- KCB Tanzania deployed in-country primary data centre in line with regulatory requirements.
- KCB Tanzania rolled out an instant feedback system across all branches to improve customer experience.

March

- KCB Group was named the 2020 overall winner during Financial Reporting (FiRe) Awards held in March 2021. The Group was also feted with five other awards during the event in testament of the strides the Group has made in entrenching sound financial reporting practices.

April

- KCB Group Plc joined other global banks representing over 40% of global banking assets in signing onto the Net Zero Banking Alliance (NZBA) to align our lending portfolio towards achieving net zero carbon emissions by 2050.

May

- KCB Group held its second virtual annual general meeting (AGM) where shareholders approved the proposal to acquire Banque Populaire Du Rwanda (BPR) (now operating as BPR Bank Rwanda Plc) and African Banking Corporation Tanzania Limited (BancABC).
- KCB named Best Commercial Bank in Kenya by the World Economic Magazine and Most Socially Responsible Bank by Finance Derivative Awards.
- KCB Rwanda enhanced mobile banking service by incorporating additional utility billers and airtime purchases.

June

- KCB committed KShs.100 million in sponsorship towards the 2021 WRC Safari Rally which returned to Kenya and Africa after a long 19-year hiatus.
- KCB Rwanda enhanced agency banking with introduction of account opening services at agency outlets.

July

- KCB Bank Kenya named Kenya's Best Bank 2021 by Euromoney global awards.
- NBK grew its partnership to enable the financing of petroleum product dealers.

August

- KCB Group Plc completed the acquisition of a majority stake in BPR and commenced integration process with KCB Bank Rwanda.
- KCB Rugby team won the Kenya Cup title.

September

- KCB Foundation launched a scholarship programme for university students, deepening its play in providing access to education for bright but underprivileged children in Kenya.
- KCB partnered with Tusk, a leading wildlife conservation organisation to launch the Lion Trail initiative to create awareness and raise funds to protect wildlife and their natural habitats.
- NBK partnered with Aqua for All, to launch a KShs. 5 billion Water, Sanitation and Hygiene financing programme aimed at collaborating with players in the value chain to drive last mile connectivity for communities and individuals.

October

- KCB ranked the Safest Bank in Africa by Global Finance in the World's Safest Banks, 2021.
- KCB Group ranked as the most valuable financial Kenyan brand for the year 2021 by Brand Finance.

November

- NBK signed a trade partnership deal with a leading global logistics provider to offer e-commerce services to Kenyan traders to access goods from across the globe.
- NBK signed on to the United Nations Global Compact, reinforcing its commitment to uphold and protect human rights, labour, environment, and anti-corruption principles through its business practices.
- BPR pledged 1,000 smart phones during the Connect Rwanda Challenge. This is an initiative through which individuals and organisations voluntarily pledge to put a smartphone in the hands of the unconnected in Rwanda.

December

- KCB Group Plc ended its acquisition bid for BancABC in Tanzania following failure to receive certain regulatory approvals within the prescribed timeframe specified in the agreement.
- NBK upgraded its credit appraisal and transaction reconciliation systems to enhance operational efficiency.

Overview

Continued focus on ESG

KEY SUSTAINABILITY HIGHLIGHTS

17%
Overall reduction in resource usage.

11.25%
Carbon footprint reduction.

6
Policies aligned to sustainable finance.

SOLAR ENERGY
Our branch in the world-renowned Maasai Mara game reserve is predominantly powered by solar energy.

28M
KCB Customers

KShs. 44.6B
Disbursed under Women Value Proposition programme.

89B
Lent to MSME customers

KShs. 2.1T
400 million transactions valued at KShs. 2.1 trillion transacted on mobile phones.

KShs. 11.2B
Disbursed for the Inua Jamii programme

KShs. 0.6T
57 million transactions valued at KShs. 0.6 trillion transacted at banking agent locations.

313
Suppliers signed up to the code of ethics.

6,633
Staff trained on sustainability.

46%
Female employees.

474
Incidences of fraud prevented.

Overview

KCB Group is committed to creating long-term value for shared prosperity through the alignment of our strategy to sustainable practices. As we deepen our presence across the region, we seek to address the Environmental, Social, and Governance (ESG) risks and effects of our operations in a manner consistent with our values.

8.4%
Proportion of climate finance portfolio to the total loan book.

40%
Branches transitioned to use LED lighting

KShs. 245B
Cumulative value of facilities screened through ESDD

CARBON EMISSIONS
KCB signed the Net Zero Banking Alliance (NZBA) to align lending portfolio towards achieving net-zero carbon emissions by 2050.

KShs. 89B
Value of facilites Screened through ESDD in 2021

Industry, Innovation and Infrastructure 9
Sustainable Cities and Communities 11
Responsible Consumption and Production 12
Climate Action 13

9,634
Jobs created under the Young Africa Works programme.

1,854
Farmers trained under the Mifugo ni Mali programme.

10,155
Women in business trained.

38%
Value of procurement contacts to special interest groups.

53
Improvement in Customer Net Promoter Score from 51 to 53.

320
High School Scholarships provided in 2021.

45
Farmer organisations trained under the Mifugo ni Mali programme.

1,235
Youths trained under the 2Jiajiri programme in 2021.

49
University Scholarships provided in 2021

No Poverty 1
Decent Work and Economic Growth 8
Reduced Inequalities 10
Sustainable Cities and Communities 11
Partnerships for the Goals 17

250
Women trained under Women in Leadership programme.

8,025
Staff trained on anti-money laundering

27%
Women members in Group Board up from 18% in 2020.

25%
Women members in senior management.

Zero tolerance policy to all forms of corruption, bribery and unethical business practices at the work place.

Peace, Justice and Strong Institutions 16
Reduced Inequalities 10
Partnerships for the Goals 17

Drummers of Gitega in Burundi.

Operating Environment

Group Chairman's Statement

Steering progress through turbulent times

Dear Shareholders,

It is always exciting to sit and write this letter to you, our shareholders, at the beginning of every year. This is especially so because I get an opportunity to reflect on our company and its positive impact on millions of lives across East Africa and beyond. I thank all of you for making this happen, and for your continued support and confidence in KCB Group.

The time we are living in today is the best moment to deepen our sense of purpose and responsibility to our staff, investors, customers, and communities. As we think of the direct and indirect effects to each of us, the individual and collective impact on our way of life, I would like to take a moment to remember the customers, staff and the families that lost their loved ones to the coronavirus over the last two years.

Resilience is often demonstrated amidst the challenges and demonstrated through pulling together towards a common and greater good. The experience over the last two years gives us confidence that the inherent strengths of our Bank not only sustained it, but will be the driver for both our short-term and long-term objectives.

> **"Distributable profits grew by 74% enabling the Board to pay KShs 3.2 billion in interim dividends for the period to September 2021 and recommend an additional KShs 6.4 billion as final dividend for the full year 2021**

2021 presented a green shoot from the devastation global economies faced earlier and the rebound set the stage for the adoption of the new normal. Regionally, our economies showed remarkable improvement with consistent progression in GDP growth in every quarter of the year despite the periodic scares as the virus continued to mutate and spread. Our optimism on this front is therefore highly bolstered by the much-welcomed news from the scientific community that points towards the weakening in severity of the disease partially attributed to the higher vaccination rates and the recent variants such as omicron.

I am pleased with how we have continuously responded by cushioning our customers from the severe economic impact of the pandemic through restructuring of loans and advancing additional support to MSMEs and women owned businesses who were disproportionately impacted by the pandemic. At the onset, we facilitated our employees to work from home, and for those whose nature of work required them to continue working on-site, we adopted vital health and safety protocols. Ultimately, this enabled us to serve our customers and seamlessly maintain business operations. We further proactively championed and facilitated vaccination drives for our members of staff and their families thus enabling a safe return to their primary working sites.

Allow me to provide some updates on our business for you to better understand where we are coming from and our ambition going forward.

Financial Performance

Reflecting on the year that was, the business did well, thanks to the perseverance of our staff and the support of our customers and other stakeholders. Despite the tough operating environment, we have been able to effectively demonstrate our mettle in managing and responding to the impact of the healthcare crisis across all our markets. All the Group businesses were profitable for the year 2021, an outcome of the steady growth trajectory over the last few years.

Notably, we closed the year on a high with the Group posting an impressive performance in growth and profitability. Total assets grew 15% to cross a trillion shillings and distributable profits growth rebounded by 74% to KShs 34.2 billion thus enabling the Board to pay KShs 3.2 billion in interim dividends for the period to September 2021 and recommend an additional KShs 6.4 billion as final dividend payout for the full year 2021. Moving forward, we are determined to sustain this momentum targeting to maintain return on average equity above 20% as our operating environment continues to improve supported by enhanced vaccination programmes by authorities in the region. You can read more about our take on each of our operating markets on pages 32 to 39 of this report. This performance affirms the robustness of all other important aspects of our business, including customer excellence and engagement, employee commitment and connection to KCB values, sustainability, and digital solutions, just to mention but a few.

The Group has over the years grown a diverse shareholder base of 193,274 shareholders, 89% of whom are local individual and institutional investors while 11% are foreign investors. In 2021, the total shareholder return was 27% significantly above the average inflation rate.

Scaling Regional Business

Over the past few years, the Bank has expanded geographically to gain a solid regional presence even as we continued to strengthen our existing businesses. To this end, in 2021, we completed the acquisition of Rwandan lender Banque Populaire du Rwanda (BPR) to become a majority shareholder. We have now amalgamated BPR and KCB Bank Rwanda into a single banking entity called BPR Bank Rwanda Plc.

Who Governs Us

This transaction catapulted our business in the fastest growing economy in the region to the second largest with a market share of 17%, giving us an opportunity to contribute more to this growth while maximizing the returns on our investments. We also hope to advance our foray into the Democratic Republic of Congo in the near term to position ourselves ready to tap into the immense opportunities that will be availed by the admission of the state into the East African Community and the cross-border opportunities this market provides.

This expansion, driven by the Group's 2020-2023 Beyond Banking Strategy, will reinforce our leadership position to give us a more robust edge in playing a pivotal role in driving the financial inclusion agenda in the region.

Governance and Oversight

In 2021, a number of Board directors concluded their terms and subsequently exited the various subsidiary boards. At the Group level, Mr. Tom Ipomai retired after serving the organisation diligently for eight years and with dedication. I would like to register my appreciation to Tom and the retired subsidiary Boards directors for their service to our Group. I am pleased to inform you that the Board vetted and nominated Mrs. Alice May Kirenge to fill the casual vacancy occasioned by Tom's retirement, a decision which will be submitted to you, the shareholders to deliberate upon at our upcoming annual general meeting (AGM). Alice brings on board a wealth of experience in insurance and financial services which will be vital in further strengthening the skillset of our Board.

Even with the ongoing global pandemic and the restrictions on large gatherings, we successfully held our 2021 AGM virtually. In 2022, we shall maintain the virtual approach to our shareholders meeting as we continue to consider the health and safety of our shareholders and stakeholders and tap into safe alternatives to conduct our AGMs either physically, virtually or in hybrid formats in the future.

Who Governs Us

Our People

In line with the Group's ambition to be the employer of choice and responsive to enhancing our sustainability, opportunity, and growth, the Board approved a new Group organisation structure which came into effect from January 1, 2021. I am happy to report to you that there has been significant progress in the implementation of the structure, with the Group Executive Committee now fully constituted. This dispensation is expected to help consolidate and grow the Group's business, align brand communication, leverage social impact synergies, enhance credit management, embed service experience, boost subsidiaries' performances as well as strengthen our customer value propositions.

People are the most important asset in any organisation, and I do acknowledge and thank all our 8,538 employees for the concerted commitment and dedication they have given to this organisation that has enabled us to continue creating value for our shareholders in these uncertain times. Our people will continue to remain at the centre of what we do and how we do it.

Beyond Business - Sustainability and Citizenship

Our business exists in an ecosystem that we need to preserve and empower in the best way we can. The triple bottom-line framework of all our operations is on the people, profits, and the planet. Under our sustainability agenda, continuous evaluation, and implementation of our actions towards the environment can only get better. In 2021, we made changes to the credit policy to accommodate the approach to, and assessment of climate and green lending facilities. We are committed to roll out initiatives toward tackling climate change in line with our target to be net zero by the year 2050. On Citizenship, we will continue focusing on our KCB Foundation initiatives to empower communities by creating jobs through the enterprise pillar of the Foundation.

KCB Group remains committed to embracing digital solutions to serve our customers better, continuously roll out new products and services that speak to their needs and optimize delivery channels across our subsidiaries to continuously ensure a superior return from our investments and deliver on our commitment to our shareholders.

2022 and Beyond

The pandemic was the ultimate blow to almost every economic sector worldwide. For banks, it tested our resilience in unforeseen ways. But the global economy is gradually recovering, and markets are starting to soar, and all things considered, we had a good year. We are optimistic about the future and remain committed to meeting and exceeding our targets as outlined in our Beyond Banking Strategy, which is anchored on driving a digital future and providing excellent customer experience.

We now have a newfound conviction that together, we can overcome almost any challenge as we continue to embark on this journey. We find ourselves in a dynamic business environment that requires us to reflect and evaluate the lessons we have learned from the pandemic. This means we must continue to align to the tectonic shifts that have reshaped financial systems like rapid growth in digitization and evolving customer needs to not only identify but also to capture business opportunities.

In our main market Kenya, we are confident that the General Election will be seamless as the country's democratic space has continued to mature supported by a progressive constitution and strong institutions that provide a conducive environment to support a peaceful and less disruptive period before, during and after the elections.

KCB Group remains committed to embracing digital solutions to serve our customers better, continuously roll out new products and services that speak to their needs and optimize delivery channels across our subsidiaries to continuously ensure a superior return from our investments and deliver on our commitment to our shareholders. Although the pandemic is not yet over, we are hopeful that vaccinations will lead us closer to everyday life as we move beyond this unprecedented period and look forward to a brighter future.

I acknowledge and appreciate the leadership of the Executive Committee led by the Group CEO and MD Joshua Oigara in steering the ship and ensuring that the business continues to deliver superior shareholder value. I applaud my fellow Group and subsidiary board members for supporting me drive the 2021 agenda. I am confident that the diverse and complementary skillsets present within the senior management and boards will enable us to navigate all 2022 has in store for us.

Andrew Wambari Kairu

Group Chairman

Taarifa ya Mwenyekiti wa Kundi

Kuendeleza ufanisi wakati wa misukosuko

Kwa Wenyehisa wapendwa,

Huu ni wakati wa furaha sana ninapoketi na kuandika barua hii kwa wanahisa wetu kila mwanzo wa mwaka. Huwa muhimu zaidi kwa sababu ninapata fursa ya kutafakari kuhusu kampuni yetu na jinsi inavyobadilisha maisha ya mamilioni ya watu katika Afrika Mashariki na kwingineko. Nawashukuru nyote kwa usaidizi wenu katika kipindi cha mwaka uliopita na imani yenu kwa Kundi la KCB.

Nyakati tunazoishi sasa ndio wakati mwema zaidi wa kusisitiza tunavyowathamini na kuwawajibikia washika dau wetu wakiwemo wafanyakazi , wawekezaji, wateja na jamii. Tunapoendelea na maisha yetu tunakabiliana kwa njia moja au nyingine, na matokeo ya furaha na pia huzuni kwa watu binafsi au kwa biashara. Ningependa kuchukua fursa hii kuwakumbuka wateja wetu, wafanyakazi na familia zilizowapoteza wapendwa wao kutokana na janga la corona katika kipindi cha miaka miwili iliyopita.

Ukakamavu kwa kawaida hudhihirika wakati wa changamoto na huonekana kupitia kuungana pamoja na kutimiza malengo mema. Tuliyoyapitia miaka miwili iliyopita yametupatia imani kwamba Benki yetu ilituwezesha kuendelea, mbele na kutimiza malengo yetu ya muda mfupi na kipindi kirefu.

Mwaka wa 2021 ulitoa dalili za matumaini ya kujikwamua kutoka kwa mdororo wa uchumi wa dunia uliotokea awali na hilo limetoa matumaini ya hali ya 'kawaida mpya' kuwepo. Uchumi katika mataifa ya kanda hii ulionyesha kuimarika pakubwa na kiwango cha Jumla ya Pato la Taifa (GDP) kiliongezeka katika kila robo ya mwaka huo licha ya kuwepo kwa vipindi vya wasiwasi ambapo kirusi cha corona kilijibadilisha na kuenea. Matumaini yetu yanatiwa moyo na habari kutoka kwa wanasayansi ambazo zinaashiria kupungua kwa makali ya ugonjwa huu jambo ambalo kwa kiasi fulani limetokana na viwango vya juu vya utoaji chanjo na pia aina mpya za kirusi kama vile omicron.

Nimefurahishwa na jinsi tulivyoendelea kuwakinga wateja wetu dhidi ya athari za janga hili kupitia kubadilisha ratiba ya malipo ya mikopo yao. Kadhalika, tumetoa usaidizi zaidi kwa biashara ndogo ndogo na za wastani na pia kwa biashara zinazomilikiwa na wanawake ambao waliathirika zaidi na janga hili. Tangu mwanzo, tuliwawezesha wafanyakazi wetu kufanyia kazi nyumbani na kwa wale ambao kazi zao hazingefanyikia nyumbani, tuliweka mikakati muhimu ya kiafya ya kuwakinga katika ofisi. Hili lilituwezesha kuwahudumia wateja wetu na shughuli za kibiashara kuendelea bila kutatizika hata kidogo. Pia, tulichukua hatua kufanikisha na kusaidia utoaji wa chanjo kwa wafanyakazi wetu na jamaa zao na hivyo kuwawezesha kurejea maeneo yao ya kazi kwa njia salama.

Mniruhusu niwape taarifa kuhusu biashara yetu inavyoendelea ili mfahamu vyema tulikotoka na azma yetu kwa siku zijazo:

Matokeo ya Kifedha

Tukidadisi mwaka uliopita, biashara yetu ilifanya vyema. Hii ni kutokana na kujitolea kwa wafanyakazi wetu na usaidizi kutoka kwa wateja wetu na wadau wengine. Licha ya mazingira ya kibiashara kuwa magumu, tumefanikiwa kuonyesha ustadi wetu katika kudhibiti na kujibu changamoto za mzozo huu wa kiafya katika mataifa yote tunayohudumu. Biashara zote za Kundi ziliandikisha faida katika mwaka 2021, matokeo yanayoendeleza ukuaji imara tulioshuhudia kwa miaka kadha sasa.

Tukidadisi mwaka uliopita, biashara yetu ilifanya vyema. Hii ni kutokana na kujitolea kwa wafanyakazi wetu na usaidizi kutoka kwa wateja wetu na wadau wengine."

Muhimu zaidi, tuliufunga mwaka kwa Kundi kuandikisha ukuaji wa kuridhisha sana pamoja na faida. Jumla ya mali iliongezeka kwa 15% na kupita shilingi trilioni moja nayo faida ikaimarika hadi KShs 34.2 bilioni na hivyo basi kuiwezesha Bodi kulipa mgawo wa faida wa muda wa KShs 3.2 bilioni kwa wakati uliomalizika Septemba 2021 na kupendekeza pesa nyingine za ziada KShs 6.4 bilioni kama mgawo wa mwisho wa faida kwa mwaka kamili wa 2021. Tukisonga mbele, tutajizatiti kuendeleza kasi hii ambapo lengo ni kudumisha mapato kutoka kwa mtaji katika kiwango cha wastani cha zaidi ya 20% mazingira ya kibiashara yanavyoendelea kuimarika yakisaidiwa na mipango ya utoaji chanjo inayotekeleza na serikali katika kanda hii. Mnaweza kusoma zaidi maoni yetu kuhusu kila nchi ambayo tunahudumu katika ukurasa 32 hadi 39 ya ripoti hii. Matokeo haya yanadhihirisha uimarishaji wa vitengo vyote muhimu vya biashara yetu, ikiwa ni pamoja na huduma kwa wateja, kujitolea kwa wafanyakazi na mshikamano wetu na maadili ya KCB, uendelevu, huduma za kidijitali na nyinginezo.

Kundi letu limekuwa likikua na kufikia sasa tuna wenyehisa 193,274, ambapo 89% kati yao ni wawekezaji wa kibinafsi au mashirika wenyeji na 11% ni wawekezaji kutoka nje. Mwaka 2021, faida kwa wenyehisa ilikuwa 27% ambacho ni kiwango kilichokuwa juu sana kupita kiwango cha mfumko wa bei.

Kuimarisha Biashara za Kanda Plc

Katika miaka michache iliyopita, Benki hii imepanua biashara zake maeneo mapya katika kanda hii pamoja pia na kuimarisha biashara zilizokuwepo tayari. Katika huu, mwaka 2021, tulikamilisha ununuzi wa benki inayoongoza kwa utoaji mikopo Rwanda ya Banque Populaire du Rwanda (BPR) kwa kuwa mwenyehisa mkuu. Sasa, tumeunganisha BPR na KCB Bank Rwanda kuwa biashara moja ambayo itakuwa ikiitwa BPR Bank Rwanda Plc.

Ununuzi huo uliifanya biashara yetu katika taifa hili linaloongoza kwa ukuaji wa uchumi katika kanda hii kuwa ya pili kwa ukubwa ambapo tunadhibiti 17% ya soko. Hili linatupatia fursa ya kuchangia zaidi katika ukuaji huu na pia kuongeza mapato kutoka

Wanaotuongoza

kwa uwekezaji wetu. Tunatumai kwamba karibuni tutaweza kuingia Jamhuri ya Kidemokrasia ya Congo kufaidi kutokana na fursa nyingi zitakazoibuliwa na kukubaliwa kwa taifa hilo kwenye Jumuiya ya Afrika Mashariki, hilo likitokea, na pia kufaidi a fursa za biashara ya mpakani.

Upanuzi huu, unaoongozwa na Mkakati wa Kundi wa 2020-2023 wa Zaidi ya Benki, utaongeza nguvu nafasi yetu kama benki inayoongoza na pia kutusaidia katika kutekeleza mchango muhimu katika ajenda ya kujumuisha watu wote katika mfumo wa kifedha kanda hii.

Uongozi na Usimamizi

Mwaka 2021, wakurugenzi kadha kwenye Bodi walikamilisha muda wao wa kuhudumu na wakaondoka kwenye bodi mbalimbali za kampuni tanzu. Katika kiwango cha Kundi, Bw. Tom Ipomai alistaafu baada ya kulitumikia shirika hili kwa uadilifu kwa miaka minane. Ningependa kutoa shukrani zangu kwa Tom na kwa wakurugenzi wa Bodi za kampuni tanzu kwa mchango wao kwa Kundi. Ningependa kuwajulisha kwamba Bodi lilimsaili na kumpendekeza Bi. Alice May Kirenge ajaze nafasi iliyoachwa wazi kutokana na kustaafu kwa Tom. Uamuzi huu utawasilishwa kwenu, wenyehisa, kuudadisi na kuamua katika mkutano mkuu wa kila mwaka (AGM). Alice ana tajriba na uzoefu wa miaka mingi katika sekta ya bima na ya kifedha ambavyo vitakuwa muhimu sana katika kuimarisha ujuzi kwenye Bodi.

Hata kukiwa na janga la corona lililoathiri dunia na marufuku ya mikusanyiko mikubwa ya watu, tuliandaa kwa ufanisi AGM ya 2021 kwa njia ya mtandao. Mwaka 2022, tutaendelea na njia hiyo ya mtandao kujumuika na wenyehisa wetu tunapoendeleza kuzingatia afya na usalama wa wenyehisa na wadau wetu na kukumbatia njia salama za kuandaa AGM zetu kwa watu kukusanyika, au kwa njia ya kidijitali ama kwa njia mseto siku zijazo.

Watu Wetu

Kuambatana na azma ya Kundi ya kuwa mwajiri anayependwa zaidi na kuimarisha uendelevu wetu, fursa na ukuaji, Bodi iliidhinisha muundo mpya wa usimamizi wa Kundi ulioanza kutekelezwa Januari 1, 2021. Nina furaha kuwajulisha kwamba tumepiga hatua kubwa katika kuutekeleza muundo huo mpya, na Kamati Kuu Tendaji ya Kundi sasa

"Biashara yetu huwa kwenye mfumoikolojia ambao tunahitaji kuuhifadhi na kuuimarisha kadiri tunavyoweza. Nguzo tatu kuu za shughuli zetu zote huwa ni watu, faida na dunia. Katika ajenda yetu ya uendelevu, utathmini wa kuendelea, na utekelezaji wa matendo yetu kwa lengo ya kuhifadhi mazingira unatarajiwa kuimarika.

imeundwa. Mabadiliko haya yanatarajiwa kufungamanisha na kukuza biashara za Kundi, kulainisha mawasiliano ya nembo, kuleta pamoja nguvu zetu katika kufaa jamii, kuboresha usimamizi wa mikopo, kuboresha utoaji wa huduma, kuimarisha matokeo ya biashara tanzu na pia kuimarisha thamani tunayoitoa kwa wateja wetu.

Watu ndio mali muhimu zaidi katika shirika lolote lile, na ninawatambua na kuwashukuru wafanyakazi wetu wote 8,538 kwa kujitolea kwao katika shirika hili ambako kumetuwezesha kuendelea kuzalisha thamani kwa wenyehisa wetu katika nyakati hizi zisizotabirika. Watu wetu wataendelea kuwa kitovu cha mambo yote tunayoyatenda na jinsi tunavyoyatenda.

Zaidi ya Biashara – Uendelevu na Uraia

Biashara yetu huwa kwenye mfumoikolojia ambao tunahitaji kuuhifadhi na kuuimarisha kadiri tunavyoweza. Nguzo tatu kuu za shughuli zetu zote huwa ni watu, faida na dunia. Katika ajenda yetu ya uendelevu, utathmini wa kuendelea, na utekelezaji wa matendo yetu kwa lengo ya kuhifadhi mazingira unatarajiwa kuimarika. Mwaka 2021, tulifanyia mabadiliko sera yetu ya mikopo kujumuisha mtazamo wa, na utathmini wa tabia nchi na mikopo ya kujali mazingira.Tumejitolea kuzindua mikakati ya kukabili mabadiliko ya tabia nchi kuambatana na lengo letu la kutokuwa tunachangia ongezeko lolote la gesi ya ukaa kufikia mwaka 2050. Kuhusu Uraia, tutaendelea kuangazia mikakati ya Wakfu wa KCB katika mikakati ya kuzisaidia jamii kwa kuunda nafasi za kazi kupitia nguzo ya biashara ya Wakfu.

2022 na Baadaye

Janga la ugonjwa wa corona lilikuwa pigo kwa karibu kila sekta duniani. Kwa benki, janga hili lilipima ukakamavu wetu kwa njia nyingi zisizotarajiwa. Lakini uchumi wa dunia unaimarika pole pole na masoko sasa yanaanza kuvuma. Ukizingatia yote yaliyotokea, tulikuwa na mwaka mzuri. Tuna matumaini kuhusu siku za usoni na tunasalia kujitolea kutimiza na kuzidisha malengo yetu kama yalivyoelezwa katika Mkakati wa Zaidi ya Benki, ambao msingi wake ni siku za usoni za dijitali na utoaji wa huduma bora zaidi kwa wateja.

Sasa, tuna msukumo mpya kwamba kwa pamoja tunaweza kuzishinda changamoto zozote tunapoanza safari hii. Tumo katika mazingira ya kibiashara yanayobadilika na hilo linatuhitaji kutafakari na kuzingatia yale tuliyojifunza wakati wa janga hili. Hii ina maana kwamba ni lazima tuendane na mabadiliko yanayotokea ambayo yamebadilisha mifumo ya kifedha kama vile matumizi ya dijitali na mahitaji ya wateja yanayobadilika, na sio tu kutambua mabadiliko hayo bali pia kuzitumia fursa za kibiashara zinazotokea.

Katika soko letu kuu Kenya, tuna imani uchaguzi mkuu utakuwa wa kufana kwani mazingira ya kidemokrasia katika taifa hilo yameendelea kukomaa, yakisaidiwa na katiba ya kisasa na taasisi zenye nguvu zinazowezesha mazingira bora ya kufanikisha amani kabla, wakati na baada ya uchaguzi.

Kundi la KCB linasalia kujitolea katika kukumbatia huduma za kidijitali kuwahudumia wateja wetu vyema zaidi, kuendelea kuzindua bidhaa na huduma

Wanaotuongoza

Janga la ugonjwa wa corona lilikuwa pigo kwa karibu kila sekta duniani. Kwa benki, janga hili lilipima ukakamavu wetu kwa njia nyingi zisizotarajiwa. Lakini uchumi wa dunia unaimarika pole pole na masoko sasa yanaanza kuvuma. Ukizingatia yote yaliyotokea, tulikuwa na mwaka mzuri.”

mpya zinazoangazia mahitaji ya wateja na kuboresha mifumo na njia za utoaji huduma katika biashara zetu tanzu. Mambo haya yatahakikisha mapato ya juu kwenye uwekezaji wetu na kutimiza ahadi yetu kwa wenyehisa wetu. Ingawa janga hili halijamalizika, tuna imani kuwa utoaji wa chanjo utasaidia kukaribia kurejelea hali ya kawaida tunapoondoka kwenye kipindi hiki cha kutotabirika na kuelekea siku za usoni na matumaini.

Natambua na kushukuru uongozi wa Kamati Tendaji ikiongozwa na Afisa Mkuu Mtendaji (CEO) wa Kundi ambaye pia ni Meneja Mkurugenzi Joshua Oigara katika kuongoza kampuni hii na kuhakikisha biashara inaendelea kuzalisha thamani kwa wenyehisa. Nawashukuru wanabodi wenzangu katika Kundi na kampuni tanzu kwa kuniunga mkono na kunisaidia kuendeleza ajenda mwaka 2021. Nina imani kwamba ujuzi na uzoefu tulio nao katika wasimamizi wakuu na bodi vitatuwezesha kuupitia mwaka 2022 kwa ufanisi.

Andrew Wambari Kairu

Mwenyekiti wa Kundi

Who Governs Us

Group Board of Directors

Eng. Stanley Kamau

Alternate to the C.S. Treasury

Andrew Wambari Kairu

Group Chairman

John Nyerere

Georgina Malombe

Who Governs Us

Lawrence Njiru

Anne Eriksson

Ahmed Mohamed

Dr. Obuya Bagaka

Alice May Kirenge

Joshua Oigara, CBS

Group Chief Executive Officer and Managing Director

Lawrence Kimathi

Group Chief Finance Officer

Bonnie Okumu

Company Secretary

Operating Environment

Kenya

Our Footprint - KCB K	
Branches	**202**
ATMs	**421**
Agents	**14,001**
Merchant outlets	**7,709**
Staff	**4,897**

Real Gross Domestic Product expanded by 7.5% in 2021 compared to a contraction of 0.3% in 2020. Most economic activities recorded growth except in Agriculture, Forestry and Fishing activities which contracted by 0.2% in 2021 compared to a growth of 5.2% in 2020 amid unfavorable weather conditions in various parts of the country, which resulted in reduced crop and livestock production. Activities that were affected more severely by the pandemic in 2020 such as Education and Accommodation and Food Services grew faster than those that were less severely affected. Economic growth in 2021 was supported by improved performance in key sectors of the economy including Manufacturing (6.9%), Wholesale and Retail Trade (7.9%), Real Estate (6.7%), Transportation and Storage (7.2%), and Financial and insurance activities (12.5%).

Agriculture remains the dominant sector, accounting for about 22.4% of the overall GDP in 2021. Industry related activities and service activities accounted for about 17.0% and 60.6%, respectively in 2021. Nominal GDP increased from KShs 10.7 trillion in 2020 to KShs 12.1 trillion in 2021, a 12.9% increase. Gross domestic product per capita increased by 11.4% from KShs 220,132 in 2020 to KShs 245,145 in 2021. During the year, monetary policy was premised on the need to accelerate economic recovery after a slowdown witnessed in most of the economic activities in 2020.

During the year, the country eased COVID-19 restrictions due to the containment of the spread of the virus, including removal of the restriction on movement in and out of some counties, reopening of learning institutions, lifting of curfew, and reopening of businesses especially those in accommodation and food services. This was supported by sustained recovery across different sectors, reduced COVID-19 infections, and increased vaccinations.

As the effects of the pandemic eased, the government reinstated some of the tax measures announced in the year 2020 to stimulate economic activity through increased government expenditure. These measures include reinstatement of maximum individual income tax rate to 30% from 25%; resident corporate tax from 25% to 30%; and increase in VAT from 14% to 16%. The year was also characterised by several major tax changes including introduction of the minimum tax at the rate of 1% of the gross turnover and a digital services tax at the rate of 1.5% of the transaction value.

In March 2021, CBK announced expiry of the emergency measures on extension and restructuring of loans for bank borrowers, following which the standard procedures for loan classification and provisioning would apply. In December 2021, a law was enacted to regulate digital lenders, providing the CBK with the powers to license and oversight the previously unregulated digital credit providers.

Overall inflation in 2021 increased to average at 6.1% compared to 5.3% in 2020 driven by increase in food and energy prices, despite the moderation in core inflation. Housing and energy inflation increased from 2.5% in 2020 to 4.8% in 2021 as international oil prices went up, coupled with the depreciation of the shilling.

Our performance KCB K	2021 KShs Million	2020 KShs Million
Total income	82,975	75,047
Operating expense	(32,580)	(28,455)
PAT	28,588	18,346
Total assets	826,395	758,345

Board of Directors - KCB Bank Kenya

Lawrence Njiru

Chairman

Eng. Stanley Kamau

Alternate to the C.S. Treasury

Simeon Rono

Njeri Onyango

Caroline R. Okongo

Joseph Muigai

Anne Eriksson

Eunice Nyala

Joshua Oigara, CBS

Group CEO & MD

Samuel Makome

Chief Commercial Officer

Bonnie Okumu

Company Secretary

Operating Environment

Our Footprint - NBK	
Branches	94
ATMs	105
Agents	511
Merchant outlets	-
Staff	1,696

Food inflation increased from 8.2% in 2020 to 8.5% in 2021 partly due to the drought conditions during the year that led to an increase in prices of vegetables.

The Kenyan shilling averaged KShs. 109.6 against the US dollar in 2021 compared to 106.5 in 2020. The shilling depreciated during the year against major international currencies, trading at KShs. 113.14 to the US dollar at the close of the year. The shilling, however, appreciated against the Euro by 4.4% in 2021 due to the strong US dollar compared to the Euro hence lower cross rates for the shilling.

Diaspora remittances increased significantly during the year growing by 20.2% to USD 3,718 million from USD 3,094 million in 2020. The US remained the largest source of remittances into Kenya, accounting for 63.2%.

The current account deficit is estimated at 5.4% of GDP in 2021 compared to 4.6% of GDP in 2020, and is projected to rise to 5.9% of GDP in 2022 due to rise in crude oil prices. The increase in 2021 was due to higher increase in imports compared to the growth in exports during the year. Imports of goods increased by 25.4% in 2021 compared to a decline of 12.4% in 2020, reflecting increased imports of oil and other intermediate goods. Exports of goods registered strong growth of 11.1% in 2021 compared to 3.2% in 2020 mainly supported by increase in receipts from exports of horticulture and manufactured goods.

The CBK's usable foreign exchange reserves remained adequate at USD 8,817 million (5.39 months of import cover) as at end of December 2021. This continues to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

The Central Bank Rate (CBR) averaged 7.0% in 2021 compared to an average of 7.2% in 2020. During the year, the monetary policy committee retained the CBR at 7.0% throughout the year, compared to the three downward reviews in 2020. This was in light of inflation expectations that remained anchored within the target range, and leading economic indicators showed continued robust performance.

The 91-day Treasury bill averaged 6.96% in 2021 compared to an average of 6.86% in 2020. The period was characterised by notable undersubscriptions on the Treasury bills as investors preferred the longer-term instruments.

Growth in private sector credit increased to 8.6% in December 2021 compared to 8.4% in December 2020. Strong credit growth was observed in transport and communication, manufacturing, trade, consumer durables, and business services.

Total public debt amounted to KShs. 8.21 trillion as at December 2021, a growth of 12.7% from KShs. 7.28 trillion in December 2020. This was driven by 15.6% growth in domestic debt, while external debt grew 10.0%. At the current level, debt stock is 91.2% of the KShs. 9.0 trillion debt ceiling and the Debt-to-GDP ratio is at 66.2%. External debts accounted for 50.9% of the total debt while domestic debt was at 49.1%. At the end of the year, T-Bills accounted for 17.6% of the total domestic debt while T-Bonds accounted for 80.4%. Banking institutions held the majority of the government domestic debt at 50.2%, while pension funds held 31.3%.

Our performance NBK	2021 KShs Million	2020 KShs Million
Total income	12,090	10,861
Operating expense	(7,750)	(7,204)
PAT	1,073	202
Total assets	146,455	126,728

Board of Directors - NBK

John Nyerere

Chairman

Eng. Stanley Kamau

Jones Makau Nzomo

Linnet Mirehane

Gen. (Rtd) Dr. J. Karangi

Dr. Obuya Bagaka

Joshua Oigara, CBS

Paul Russo

MD & Group Regional Business Director

Samuel Mundia

Company Secretary

Operating Environment

Tanzania

Our Footprint	
Branches	14
ATMs	15
Agents	311
Merchant outlets	476
Staff	291

Real GDP grew by 4.9% during the year 2021 compared to a growth of 4.8% in 2020 supported by growth in Energy (10.0%), Accommodation & Food services (7.3%), ICT (10.0%), and Professional & Administrative services (6.9%). Agriculture remains the dominant sector accounting for 26.7% of GDP, followed by Construction at 14.2%.

The annual average headline inflation rate increased to 3.7% in 2021 from an average of 3.3% in 2020. This increase was mainly attributed to a rise in core inflation to 4.1% from an average of 2.3% recorded in 2020. In contrast, food and non-alcoholic beverages inflation decreased to 4.2% in 2021 from 4.8% recorded in 2020 due to adequate food supply because of favourable weather conditions.

The Tanzania shilling appreciated slightly against the dollar closing the year at 2,307.51 in December 2021 compared to TZS 2,309.33 in December 2020. Average lending rate on loans declined, although at a slow pace. The overall lending rates averaged 16.37% in December 2021, decreasing from 16.74% recorded in December 2020.

The interbank borrowing rates increased from an average of 3.77% in the period ending December 2020 to an average of 4.15% in December 2021. Money market sustained adequate liquidity levels in November 2021, supported by accommodative monetary policy conditions. Consequently, money market short term interest rates and yields on government securities remained low and stable. Foreign exchange market continued to benefit from increase in supply of foreign exchange, mainly from exports of minerals, cash crops and tourism receipts. The 364 days Treasury bills rates increased from an average of 4.57% in December 2020 to 4.99% in December 2021.

The Bank of Tanzania (BOT) issued various regulations in 2021 including the business continuity management guidelines for banks and financial Institutions aimed at defining the major elements and highlighting the role of business continuity within a bank or financial institution. The guidelines outline the duties of the Board, senior management, employees, and the internal audit function regarding business continuity and provides guidance on how to develop an effective business continuity plan (BCP) while considering the scope and size of an entity's operations. It also guides in making adequate preparations to deal with possible business interruption scenarios and in evaluating the adequacy of the BCPs.
BOT also issued outsourcing guidelines for banks and financial Institutions aimed at ensuring that all material outsourcing arrangements entered by a financial institution are subject to appropriate due diligence, approval, and ongoing monitoring. They also ensure that all risks arising from material outsourcing arrangements are appropriately managed to ensure that a financial institution can meet both its financial and service obligations to customers and other stakeholders. Additionally, they ensure that all dealings between a financial institution and outsourced service providers and their related interests are conducted at arm's length.

Our performance	2021 KShs Million	2020 KShs Million
Total income	3,206	2,771
Operating expense	(1,283)	(1,569)
PAT	722	216
Total assets	38,932	33,634

Board of Directors

John Ulanga

Chairman

Fatuma Chilo

Dr. Alex Ngulumа

John Nyerere

Georgina Malombe

Santina Benson

Samuel Makome

Cosmas Kimario

Managing Director

Antonia Kilama

Company Secretary

Operating Environment

South Sudan

Our Footprint	
Branches	13
ATMs	4
Agents	45
Merchant outlets	20
Staff	136

The IMF estimates that South Sudan's GDP grew by 5.3% in 2021. Ongoing peace, rising oil prices and injection of rapid response fund by IMF helped support partial economic recovery in 2021. The Fund projects the economy will continue to recover faster in 2022 with an expansion of 6.5% on the backdrop of stable prices, increase in oil prices and opening of the economy supported by the ongoing infrastructure projects majorly in road construction. Inflation moderated in 2021 to average 12.2% compared to 32.6% in 2020 as food prices continued to decline during the year.

Over the period, the government has continued to implement ambitious projects in energy and water sectors. For instance, Juba city is now powered by Juba Electricity Generating company a partnership between the government and private sector. There is also an ongoing project in partnership with Japan to supply piped water to Juba city hence reducing carbon footprint as the current supply is mainly done by water bowsers.

Foreign investor confidence in the country continues to recover after the IMF advanced rapid response fund of US$ 174 million in April 2021 to help manage the negative effects of the COVID-19 pandemic. The funding programme also aims to reduce budget deficit and steady the local currency which faced significant strain in 2021 depreciating by over 100% to the US dollar. The sharp depreciation in the currency has led to erosion of wealth and disposable income.

Digital penetration drives continue in the country spearheaded by the country's two telecom companies: Zain and MTN. Total subscriber base stands at 3 million out of a total population of 12.5 million. The country has seen steady growth in adoption of digital financial products, a trend that is likely to continue given the increased uptake in mobile phones and increase in mobile coverage in the country.

The country still grapples with foreign currency shortages given that it is a net importer of goods and services. A foreign exchange reform programme introduced in 2021 sought to liberalize foreign exchange markets and eliminate the large distortion from a significant premium of the exchange rate in the parallel market relative to the official rate. The completion of this goal is expected to usher in notable success with tangible benefits. The programme was supported by disbursements under the IMF's Rapid Credit Facility in 2021. These disbursements coupled with higher global oil prices, macroeconomic stabilization and foreign exchange market reforms are expected to contribute to an appreciation of the market exchange rate. This appreciation in turn is expected to lead to a significant decline in inflation, with domestic prices including those for food items starting to fall slightly towards the last months of the year.

Economic outlook for the country in the medium term is premised on public finance management reforms, improved budgeting and allocation of resources, peace, and food security. A national vaccination campaign has made some progress in distributing COVID-19 vaccines, supported by the World Bank and COVAX. However, so far only a small share of the population has been vaccinated.

Our performance	2021 KShs Million	2020 KShs Million
Total income	1,314	1,062
Operating expense	(431)	(554)
PAT	916	789
Total assets	15,860	16,511

Board of Directors

Gen. (Rtd) Dr. J. Karangi

Chairman

Anne Eriksson

Garang Diing Akuong

Yacoub Kenyu Leju

Ahmed Mohamed

Dr. Leonard Mwithiga

Roba Waqo Jaldesa

Managing Director

Mary Oganga

Company Secretary

Operating Environment

Rwanda

Our Footprint-KCBR	
Branches	13
ATMs	26
Agents	590
Merchant outlets	157
Staff	236

Rwanda's Economy strongly rebounded in 2021 bolstered by sustained fiscal stimulus and an accelerated vaccination rollout. Real GDP in Rwanda increased by 10.9% in 2021 compared to a contraction of 3.4% in 2020. This reflects the low spread in public health catastrophe of COVID-19 compared to 2020.

In 2021, GDP at current market prices was estimated at Frw 10,944 billion, up from Frw 9,607 billion in 2020. Services sector contributed 48% of GDP, Agriculture sector 24% of GDP, and Industry sector 20% of GDP while 8% was attributed to adjustment for taxes less subsidies on products.

Agriculture sector increased by 6% and contributed 1.6 percentage points to the overall GDP growth. Activities in the Industry sector increased by 13% and contributed 2.4 percentage points to the GDP growth. Service sector increased by 12% and contributed 5.6 percentage points to the GDP growth.

In 2021, private final consumption expenditure was 72% of the GDP while government final consumption expenditure was 17%. Gross capital formation was estimated at 26% of GDP. The central bank expects the economy to continue recovering in 2022 with a projected growth of 7.2% driven by the government's supportive macroeconomic policies including the manufacture and build to recover programme, vaccine rollout, and continued resumption of economic activities.

Inflation is projected to move towards the benchmark level and be within the upper bound of the central bank's tolerance level in 2022, driven by the pickup in domestic activity, global demand, and rising commodity prices. In 2021, urban headline inflation decelerated to 0.8% from 7.7% recorded in 2020. The deceleration was mostly reflected in domestic components like food and transport. Food prices dropped reflecting the good performance of agriculture, while transport inflation reduced due to the base effect from the pandemic-related transport hike in 2020. Headline inflation is projected at 7.5% in 2022 mainly due to the increase in imported costs and international commodity prices.

The Rwandan Franc (FRW) depreciated by 3.8% against the US dollar in 2021, an improvement compared to a depreciation of 5.4% in 2020. The slowdown despite of the strengthening of the US dollar witnessed in 2021 was due to reduced pressure on the local currency during the year attributed to stable demand for foreign currencies and increased export earnings. Rwanda's exports continued to recover in 2021 from the COVID-19 induced slump growing by 53.4%. This growth was mainly driven by rising commodity prices across the globe and reduced supply chain disruptions to global trade in 2021. Total imports grew by 16.5% driven by strong recovery of domestic demand coupled with rising global prices.

Our performance KCBR	2021 KShs Million	2020 KShs Million
Total income	2,816	2,277
Operating expense	(1,572)	(1,360)
PAT	747	446
Total assets	27,480	26,125

Board of Directors - BPR Bank Rwanda Plc

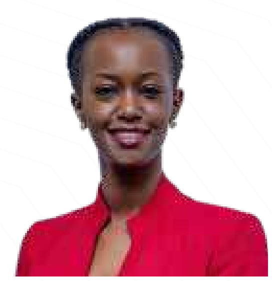
George Rubagumya

Chairman

Dr. Obuya Bagaka

Daina Hagumba

Jean Malic Kalima



Patience Mutesi

Linda Mulenga

Paul Russo

George Odhiambo

Managing Director

Brice Manzi

Company Secretary

Operating Environment

Our Footprint - BPR	
Branches & Agencies	137
ATMs	51
Agents	354
Merchant outlets	0
Staff	871

The current account deficit is projected to have reduced to 11.1% of GDP in 2021 from 11.9% recorded in 2020 driven by higher transfer inflows mainly from diaspora remittances and government grants. The deficit is further expected to narrow over the medium term financed by foreign direct investments and concessional loans. Foreign exchange reserves at the year provided an import cover of 5.3 months comfortably above the benchmark level of four months.

In 2021, Rwanda continued with partial lockdowns to contain the spread of the coronavirus even as it ramped up vaccination drives. By the end of the year, the country had achieved its target to vaccinate at least 30% of the population. Night curfew remained in place from 10:00PM to 4:00AM and international passengers had to present a negative COVID-19 PCR test taken within 72 hours prior to departure and quarantine for 24 hours at designated facilities at their own cost. However, schools and hospitality facilities were open and operational. With continued drop in infection cases and uptake of vaccines, the country lifted the night curfew and reopened all borders and entertainment venues during the first quarter of 2022.

The country's fiscal policy is reoriented to be supportive of the promising recovery. The fiscal deficit is anticipated to increase to 9.1% of GDP in fiscal year 2021/2022 reflecting additional spending related to mitigating the pandemic impact and measures such as temporary tax incentives for manufacturing and construction under the manufacture and build to recover programme to fast-track economic recovery.

The interbank market rate remained stable and accommodative in 2021 due to low inflation and stable exchange rate supported by adequate foreign exchange reserves in 2021. The National Bank of Rwanda maintained an accommodative stance with a central bank rate (CBR) of 4.5% throughout the year. As a result, money market rates were steered around the CBR, with the interbank market rate declining by 17 basis points to average 5.18% in 2021.

The average lending rate reduced by 17 basis points to average 16.18% in 2021 marginally down from 16.35% in 2020, leading to a growth in the long-term loans priced at lower rates for both corporate and individual customers. At the same time, depositors, benefited from an increase in the deposit rate by 18 basis points to average 8.0% in 2021. Credit to the private sector grew by 14.7% in 2021 driven by increased loan disbursements to household and construction sectors during the year.

Our performance BPR	2021 KShs Million	2020 KShs Million
Total income	1,690	-
Operating expense	(1,120)	-
PAT	349	-
Total assets	47,882	-

Moving together as one - the birth of BPR Bank Rwanda Plc

KCB Group Plc received regulatory approval from the National Bank of Rwanda (BNR) to merge Banque Populaire du Rwanda (BPR) and KCB Bank Rwanda. This paved way for the two banks to commence operations as a single entity named BPR Bank Rwanda Plc, with KCB Group as the majority shareholder with effect from 1 April 2022.

The combined Bank effectively became the second largest bank in Rwanda and gave KCB Group a stronger edge in deepening the ongoing Group strategy to scale regional presence. BPR Bank has a lot of potential, and the success of this business will build on our era of undisputed leadership in the market and contribute towards Rwanda's economic success. We are confident that we can re-write Rwanda's next chapter of development and economic growth in the years ahead.

The integration allows our customers to enjoy exciting retail and wholesale offerings and the wide branch network is an opportunity for us to roll out products and services especially to MSMEs and the rural community. The new entity has a new organisational structure; aligned products and services for the market; integration of core banking system; credit process automation as well as rebranded branches and customer touch points.

Subsequently, BPR Bank Rwanda Plc Board was constituted and a new organisation structure for the integrated entity was established. The structure has considered the necessity of smooth post-integration transition with minimal business and human capital disruption whilst retaining key talent resources as well as alignment to the KCB Group Structure for support and governance. The structure is also aligned to fulfilling the overall KCB Group 2020 - 2023 Beyond Banking Strategy.

We look forward to an exceptional growth and experience in the coming years. This new beginning comes with hope and great aspirations for us as we work to become the most preferred financial solutions provider in Africa with a global reach.

Operating Environment

Uganda

Our Footprint	
Branches	13
ATMs	15
Agents	429
Merchant outlets	231
Staff	271

Real GDP grew by 6.0% in 2021 compared to a contraction of 1.5% in 2020. This growth was supported by 6.5% growth in industry (with construction growing by 16.0%) and 8.7% growth in Services as Education, Accommodation & Food services, ICT and Professional services recorded double digit growths. The credit relief and loan restructuring measures for supervised financial institutions during the COVID-19 pandemic came to an end on 30 September 2021. Given the impact of the containment measures on the education and hospitality sectors, new credit relief measures were instituted up to 30 September 2022. The new measures include an additional restructure, maintenance of credit risk profile and non-accrual of interest for the businesses that take up this measure.

Annual headline inflation remained low and stable, averaging about 2.2%, compared to 2.8% in 2020 largely due to low food inflation, resulting from bumper harvests amidst subdued domestic and regional demand. The Central Bank Rate was reduced to a record low of 6.5% in June from 7.0% at the start of 2021. Subsequently, commercial bank lending rates declined to an average of 18.5% in 2021 from 19.1% in 2020.

During the year, the shilling experienced appreciation pressures but remained relatively stable. The shilling appreciated by 3.6% to average UGX 3,587 per US dollar in 2021 as stronger inflows from offshore investors, budget support and export earning countered low domestic and regional demand.

On the fiscal front, a slower pace of economic recovery coupled with pandemic-related uncertainties hampered revenue mobilization efforts and resulted into revenue shortfalls during the year. To protect health systems and promote private sector activity, a fiscal response stimulus package comprising of over UGX 2.4 trillion was disbursed to the Ministry of Health, the Uganda Development Bank, the Microfinance Support Center and funds under the Presidential Initiatives on wealth and job creation. Lower domestic revenues and the spending requirements to support the health sector and economic recovery contributed to a dent in public finances with the fiscal deficit increasing to 9.5% of GDP from 7.1% in 2020 and was financed through external and domestic resources. The stock of public debt increased to 46.9% of GDP at the end of June 2021 up from 40.8% reported in June 2020.

The Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020 were gazetted and took effect on 31 December 2020. The key developments arising in the regulations are the introduction of; a Capital Conversion Buffer (CCB) of 2.5% of the risk weighted assets over and above the core capital ratio and total capital ratio, a Systemic Risk Buffer for domestic systemically important banks (DSIBs) ranging from 0.0% to 3.5% to risk weighted assets over and above the CCB, a Countercyclical Capital (CCY) Buffer of 2.5% of risk weighted assets and a minimum Leverage Ratio of 6.0% of the total balance sheet and off balance sheet assets. All commercial banks and credit institutions are expected to comply with the new Capital Conversion Buffers and Leverage Ratio with effect from 31 December 2021. KCB Bank Uganda is compliant.

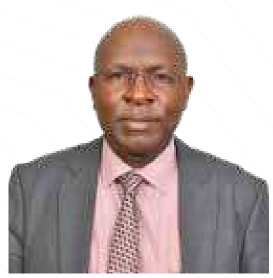
Our performance	2021 KShs Million	2020 KShs Million
Total income	2,036	1,667
Operating expense	(1,312)	(1,307)
PAT	270	378
Total assets	24,638	18,975

Board of Directors

Constant O. Mayende

Chairman

Apollo Obbo



Edgar Omoto

Caroline Rabar Okongo

Allen Sophia Asiimwe

Robert Kabushenga

Lawrence Kimathi

Edgar Byamah

Managing Director

Agnes Namyalo Mayanja

Executive Director

Burundi

Our Footprint	
Branches	**6**
ATMs	**8**
Agents	**200**
Merchant outlets	**92**
Staff	**139**

GDP is expected to slowly recover in 2022 with the resurgence in economic activities from the COVID-19 induced disruptions. Although 80% of the population is employed in the agricultural sector, being a net importer of goods and services, the tertiary sectors of hotel, restaurant, trade, and transport have been hardly hit by the pandemic due to travel restrictions and disruption of supply chains in trading partners. The IMF estimates that the GDP grew by 2.4% in 2021 and projects an acceleration to 3.6% in 2022. The government of Burundi through the promulgated budget expects that in 2022, the GDP will grow by 3.3% and the fiscal deficit will lower to 14.5% from 15.7% in 2021. Inflation increased in 2021 to average 8.4% from 7.5% in 2020 driven by higher food prices. The IMF projects prices will continue under pressure in 2022 with inflation expected to average 9.2%.

On the macroeconomic level, the Country will be on the fourth year of its 2018 – 2027 National Development Plan placing special emphasis on the structural transformation of the economy for strong, sustainable, resilient, inclusive, job-creating growth by financing sectors that drive economic growth.

Near term policy will focus on protection against COVID-19 and entrenchment of ties with multilateral and bilateral partners. To contain the effect of COVID-19, the IMF and the World Bank approved a disbursement of USD 76 million and USD 60 million to respond to the threat posed by the pandemic.

In 2022, projected budgeted revenues will rise by 12% to BIF 1.1 trillion while budgeted expenses are expected to rise by 9.8% to BIF 1.6 trillion therefore resulting in budget deficit. To drive revenues and achieving a balance budget over time, the government will mainly try to widen the tax base, strengthen law and regulations related to tax collections and conduct comprehensive reforms for public finances.

Following positive progress initiated by the new government elected in 2020, the European Union has resumed the process of lifting economic sanctions that stopped financial aid to the country. This is expected to lead to resumption of economic activities in 2022 which in turn is likely to increase the availability of hard currency while improving the country's foreign exchange reserves. Moreover, Burundi and Rwanda have been holding several discussions to focus on strengthening bilateral relations and therefore normalizing relations between the two countries after seven years of strained relations. This is expected to lead to reopening of the common borders and resumption of cross-border trade and businesses. Currently, the government is promoting domestic tourism after several restrictions that kept tourists off for the last two years.

However, the current account has continued to run a large deficit due to the expected pressure on prices on agricultural raw materials and the revival of imports linked to the economic recovery. Burundi's domestic public debt rose continuously since 2015 when external funding dried up due to sanctions by the European Union.

To improve the accessibility of population to electricity thus lowering the cost of production of goods and services, the government has started the implementation of several projects such as the JIJI-Mulembwe project, the Rusumo Falls project and the Ruzibazi project. Moreover, the country has recently signed an agreement with Tanzania on a standard gauge railway linking Burundi to Tanzania.

Our performance	**2021 KShs Million**	**2020 KShs Million**
Total income	1,279	1,118
Operating expense	(550)	(598)
PAT	518	531
Total assets	12,039	10,309

Board of Directors

Joseph Muigai

Chairman

Margaret Kositany

Lawrence Njiru

Yvette Munkurize

Christian Nibasumba

Japheth Achola

Masika Mukule

Managing Director

Herbert Fyiroko

Company Secretary

Lion of Judah Monument, Addis Ababa, Ethiopia.

Strategy Review

Strategy Review

Group CEO & MD's 2021 Letter to Shareholders

Ushering in the Era of KCB as an Undisputed Leader

Dear Shareholders,

I am pleased to provide you with this update to showcase the progress of the Bank and the significant business achievements which we have made in the past year as well as the ambitions we have set for ourselves in the short, medium, and long term.

Amid the global COVID-19 health crisis, which remains one of the biggest disruptions, KCB Group stepped into 2021 with renewed optimism of doing better than the previous year. This confidence was informed by the deliberate initiatives that we undertook to ring-fence our business in 2020, support our customers and other stakeholders as well as guarantee the safety and wellbeing of our staff. At the onset of the pandemic, we made concerted efforts to conserve our capital, manage liquidity and contain our costs. These steps enabled us to start the second year of the pandemic from a position of strength giving us the power to drive our plans.

Our Beyond Banking strategy which is on its second last year remains anchored on delivering the very best in customer experience and driving a digital future. In anticipation of a stronger year ahead, and a more sustainable recovery, we are deepening our focus on supporting various sectors of the economy as we walk with our customers to regain their lost foothold due to the COVID-19 crisis.

We also made strategic investments to deepen our regional play while building a sustainable business for the future that is anchored on people, planet, and profit.

Strategy Review

"KCB Group stepped into 2021 with renewed optimism of doing better than the previous year. This confidence was informed by the deliberate initiatives that we undertook to ring-fence our business in 2020, support our customers and other stakeholders as well as guarantee the safety and wellbeing of our staff.

Banking in a Pandemic: Supporting our Stakeholders

In 2021, the banking sector was able to weather the storm, posting strong performance supported by the gradual recovery in some of the sectors, strong liquidity and capital positions that continue to carry the rest of the economy through the devastating effects of the pandemic.

The year under review saw the rolling back of most of the fiscal, and some of the monetary policy measures that had been taken earlier to cushion businesses and households during the pandemic. The regulatory flexibility for loan moratoriums to adversely impacted customers, for instance, lapsed across the region save for the hospitality and education sectors. As some of the measures have been maintained, while others revised and some reinstated for specific customer segments, the industry demonstrated its ability to accommodate the short term interruptions and optimism towards the full return of its operating norms.

Amid these challenges, the Group continues to provide the much needed financial and non-financial support to our customers who are still impacted by the pandemic to ensure they withstand the current crisis. Our resolve to support our customers to navigate the crisis helped them pick up from the subdued business environment.

At the same time, the Group is actively championing the deepening of digital channels during this period as a safer means of accessing banking services across our markets. This shift to digital channels has been well received by our customers with up to 98% of our transactions now taking place outside our banking halls. We have walked the journey with our customers this year and it shows in our satisfaction surveys, capped by our high Net Promoter Score of 53 in 2021.

The economies across the region posted strong performances bolstered by recoveries in most sectors. However, the operating environment remains challenging, and uncertainty still abounds, but we remain well positioned to navigate through and deliver on our commitments to you, our shareholders.

Our Financial Performance

2021 was a good year for the Group and everyone played their role to ensure that we delivered on our strategy. My assessment of the performance for 2021 is very strong and positive.

This was a good year, and our staff played a key role in ensuring the Bank remained on track. We recorded numerous significant milestones, most of which are set out in this report, including surpassing prior financial highs. The Group almost doubled its profit after tax in 2021 with a net profit of KShs 34.2 billion up from KShs 19.6 billion a year ago, a 74% jump, driven by higher income and reduced provisions as recovery from the COVID-19 pandemic accelerated in the year.

Our total assets increased by 15% to KShs 1.14 trillion, driven by organic growth across our businesses and the acquisition of Banque Populaire du Rwanda (BPR) in Rwanda (now operating as BPR Bank Rwanda Plc). This not only propels us higher on the global ranking but provides the base from which our future ambitions are drawn.

We ended the year with our capital ratios substantially above minimum regulatory requirements.

Our total assets increased by 15% to KShs 1.14 trillion, driven by organic growth across our businesses and the acquisition of Banque Populaire du Rwanda (BPR) in Rwanda (now operating as BPR Bank Rwanda Plc).

This not only propels us higher on the global ranking but provides the base from which our future ambitions are drawn."

Our earnings potential and healthy capital position provided us with the capacity to prudently grow our business while at the same time ensuring healthy returns for our shareholders through dividend and share price appreciation.

Scaling our Regional Play

In August 2021, we completed the acquisition of Banque Populaire du Rwanda (BPR). We have amalgamated KCB Bank Rwanda and BPR to form BPR Bank Rwanda Plc, which shall, going forward, be our brand within the Rwandan market. The merged entity is the second largest bank in the country with 17% market share granting us a bigger role to play in the market and across all customer segments.

Even though we terminated our pursuit of acquiring BancABC in Tanzania due to lack of receipt of all regulatory approvals by the pre-agreed date, we are confident about our existing business and prospects in the market with our subsidiary in the region posting a 117% growth in profit before tax (PBT). This demonstrates our potential and capacity

Strategy Review

for organic growth in our international businesses, over and above our targeted acquisition drives.

> **In August 2021, we completed the acquisition of Banque Populaire du Rwanda (BPR). We have amalgamated KCB Bank Rwanda and BPR to form BPR Bank Rwanda Plc, which shall, going forward, be our brand within the Rwandan market.**

In 2021, our regional businesses posted an organic growth of 69% with a PBT of KShs 6.2 billion. Our acquisition of BPR brought on board an additional KShs 477 million in pretax profits driving the total contribution from subsidiaries outside of KCB Bank Kenya to 14%, just 600 basis points shy of our strategic target of 20%.

To expand our regional footprint, we are looking towards an entry into the Democratic Republic of Congo (DRC). We believe the market presents huge untapped potential as well as immense trade opportunities that have been presented by its admission to the East African Community (EAC). Currently, the Group has a presence in all the other six EAC countries enabling us to facilitate seamless trade and transactions across the borders. With DRC's admission to this single market bloc, we may not be able to fully maximize all the potential that the admission will present in the region without having a presence in all the markets of this bloc.

Supporting MSMEs

As a Group, we have identified Micro, Small, and Medium Enterprises (MSMEs) as a key focus area going forward and we are targeting to double our loan book in this sector by 2023, not only in Kenya but across all our subsidiaries.

Late last year, we relaunched our offering for the MSMEs sector under the 'Partner kwa Ground' campaign. Our commitment to our customers is to be their dedicated partner on the ground, giving access to customized financial products and services that will boost their businesses. Our MSMEs are the next generation corporates, therefore this campaign is our commitment to journey with our customers and to deliberately build this pipeline in readiness for a future of possibilities.

Sustainable Business Operations

The COVID-19 pandemic has challenged the pessimists who may have doubted the value of embedding Sustainability into their business operations. As a Group, we deepened our Sustainability agenda, which is anchored on environmental, social, economic and financial pillars. This due to the realization that a business is not just about making profits, but also transforming the communities where we operate in while ensuring that our operations are climate-friendly. We have partnered with like-minded stakeholders, and in line with this, in October, we introduced a Code of Ethics for all our service providers, which requires them to subscribe to guidelines on sustainable operations.

In pursuit of our green ambition and in the wake of the 2021 United Nations Climate Change Conference, also known as COP26, we signed on to the Net Zero emissions target by 2050, joining other global institutions in the race to zero. As a Group, we also welcome the release of the Central Bank of Kenya (CBK) Guidelines on Climate Risk Management. This is a step in the right direction as it leaves no room for lack of action towards climate change mitigation.

To run a sustainable business, it is imperative to maintain diversified sources of income. For 2022, we are working on this on two fronts. First, we will focus on executing our Digital Financial Services (DFS) Strategy where we will position DFS as a platform to digitise the core business and build new revenue streams. We will also build a distribution network and grow partner ecosystems by onboarding aggregators and Fintechs, as we leverage our strong customer base to provide foundational growth. Secondly, we will continue to put in the effort to grow service fees and forex (FX) income. With this, our focus will be to grow service fees by deepening product penetration and activity levels from the existing customer base, pursue new FX product offerings, and implement the Regional Treasury model.

Building a Regional Powerhouse Brand

In 2014, KCB began working to refresh its brand to be a business enabler to credibly deliver on customers' needs. This brand proposition allowed us to be better aligned in the market and support the achievement of the Bank's strategy through a well-defined purpose (Simplifying your World to Enable your Progress), values, and behaviours. As a result, KCB's brand equity grew as well as our business performance.

KShs. 1.14 Trillion
Group Total Assets

KShs. 34.2 Billion
The Group profit after tax in 2021

KShs. 109.3 Billion
Total Income in 2021

Strategy Review

In pursuit of our green ambition and in the wake of the 2021 United Nations Climate Change Conference, also known as COP26, we signed on to the Net Zero emissions target by 2050

KCB Group is now at an inflection point. The business environment is constantly changing, and we must keep adapting to it, to take advantage of new opportunities while remaining relevant to our customers as the preferred financial provider within the markets we operate in. We have kicked off work to review our brand to ensure stronger alignment with the Beyond Banking strategy and vision.

The People Agenda

Our success in the period under review could not be possible without the hard work and determination of each member of our staff who continue to believe and deliver on our strategy. We are where we are today because of their commitment and diligence. To further sustain our growth, the Group continued to invest in enhancing their capacity to deliver on their roles through continuous training. Due to investments that we made earlier on, we are able to deliver a range of training seamless across the region through our online learning platform. These training impart essential skills in key areas such as IT & cyber security, health and safety, anti-money laundering, sustainability among others.

To facilitate a safe return to work, the Group championed and supported vaccination drives for our staff and families across the region. I am pleased to note that today, up to 98% of our staff have been vaccinated with at least one dose. Even though we do not have a vaccine mandate, I have been impressed by how they embraced the drive and took the jabs to protect themselves, their families, and colleagues. This enabled a 100% return to work across all our businesses in December 2021.

In 2021, we also completed the staffing of our Executive Committee with the confirmation of Bernard Okello as our Group Credit Director and appointment of Rosalind Gichuru as our Group Director Marketing, Corporate Affairs and Citizenship. Bernard and Rosalind bring on board a wealth of expertise and experience in the banking sector to help steer our Group to even greater success.

2022 Outlook

As a Group, we have laid out our plans and mapped out key areas that will guide our operations into the future. The Beyond Banking strategy is still the anchor of our business. With the pandemic still lurking around and being an election year in Kenya, we are cautiously optimistic about the full year prospects. We however expect the business to be resilient with the ongoing economic recovery.

Looking ahead, KCB believes in being a purpose-led and driven organisation that takes recognition of all its stakeholders and runs a sustainable business that impacts society positively as a responsible corporate citizen and earns our license to operate. We will continue to pursue key initiatives to strengthen this resolve.

The KCB Foundation will focus on redefining the Young Africa Works programme in partnership with the Mastercard Foundation. We shall also expand our investment in the education sector to include full university scholarships and apprenticeship programmes, and scale-up and roll-out the Foundation's programmes into the Burundi and South Sudan markets.

On Sustainability, our priorities are to increase the proportion of our green lending book to 12.4%, review climate change risks and opportunities, strengthen our Environmental, Social and Governance (ESG) practices, advance the NetZero ambitions and Sustainable Development Goals (SDGs) implementation, and capacity building for all staff in climate change and green lending.

On Sustainability, our priorities are to increase the proportion of our green lending book to 12.4%, review climate change risks and opportunities, strengthen our Environmental, Social and Governance (ESG) practices, advance the NetZero ambitions and Sustainable Development Goals implementation, and capacity building for all staff in climate change and green lending. ”

In conclusion, I would like to thank all our employees for their commitment and dedication in the face of unprecedented adversity. It is only through our collective effort that we could ring-fence our market position and protect our shareholders' interests. Equally, I wish to acknowledge the support and direction that the management and I have received from the Board of Directors as we endeavour to see that KCB Group continues to scale even greater heights within the region. I appreciate all our stakeholders for the support and trust you have in me, and the Executive Committee to lead KCB Group.

Joshua Oigara, CBS

Group Chief Executive Officer & Managing Director

Barua ya Afisa Mkuu Mtendaji na Mkurugenzi Mkuu kwa Wenyehisa 2021

Kuikaribisha Enzi mpya ya KCB kama Kiongozi Asiye na Utata

Kwa Wenyehisa Wapendwa,

Nina furaha kuwasilisha taarifa hii kuwaonyesha hatua ambazo Benki yetu imepiga na mafanikio makubwa ya kibiashara tuliyoyapata katika mwaka mmoja uliopita. Hii ni pamoja na kuwajulisha malengo ya kipindi kifupi, cha wastani na wa muda mrefu tuliyojiwekea.

Wakati wa janga la kiafya la COVID-19, ambalo limesalia kuwa changamoto kuu zaidi, Kundi la KCB liliingia mwaka wa 2021 na matumaini mapya ya kufanya vyema kuliko mwaka uliotangulia. Imani yetu ilichangiwa na mikakati tuliyoiweka kuikinga biashara yetu mwaka 2020, kuwasaidia wateja wetu, wadau wengine na kuhakikisha usalama na afya ya wafanyakazi wetu. Mwanzoni mwa janga, tulichukua hatua za kuhifadhi mtaji wetu, kudhibiti mzunguko wa fedha na gharama zetu. Hatua hizi zilituwezesha kungia mwaka wa pili wa janga tukiwa imara zaidi. Hili lilitupatia nguvu ya kuendeleza mipango yetu.

Mkakati wetu wa Zaidi ya Benki, ambao upo katika mwaka wa pili sasa, unasalia kuangazia utoaji wa huduma bora zaidi kwa wateja na kuongoza siku kidijitali za usoni. Kwa kutarajia mwaka mwema mbele yetu, na kuendelea kujikwamua, tunakoleza juhudi zetu katika kuangazia kusaidia sekta mbalimbali za uchumi tunapotembea na wateja wetu katika safari yetu ya kujirejesha tena katika hali tuliyokuwa kabla ya janga la COVID-19 kutokea.

Tumefanya pia uwekezaji wa busara kwa lengo la kukoleza mchango wetu katika kanda huku tukijenga biashara endelevu kwa ajili ya siku zijazo yenye msingi wake katika watu, dunia na faida.

Strategy Review

"Tumefanya pia uwekezaji wa busara kwa lengo la kukoleza mchango wetu katika kanda huku tukijenga biashara endelevu kwa ajili ya siku zijazo yenye msingi wake katika watu, dunia na faida

Benki wakati wa Janga: Kuwasaidia Wadau wetu

Mwaka 2021, sekta ya benki iliweza kuhimili misukosuko, na kuandikisha matokeo mazuri yaliyosaidiwa na kuimarika tena kwa baadhi ya sekta. Matokeo mazuri yalisaidiwa pia na kuwepo kwa mzunguko wa fedha na mtaji imara mambo ambayo yaliwezesha uchumi kuendelea kustahimili changamoto nyingine za janga hili.

Katika mwaka tunaoutathmini, tuliondoa nyingi za hatua na sera za kifedha tulizokuwa tumeweka awali kulinda biashara yetu na familia wakati wa janga. Nafuu ya kisheria ya muda wa kulipa mikopo kwa wateja walioathiriwa sana, kwa mfano, ilimalizika katika kanda isipokuwa kwa sekta za hoteli na elimu nchini Uganda. Ingawa baadhi ya hatua zimebadilishwa au kurejeshwa kwa baadhi ya wateja, sekta hii ina uwezo wa kuendeleza ukuaji kwa jumla na pia kutimiza mahitaji ya hatua hizo za muda.

Licha ya changamoto hizi, Kundi limeendelea kutoa usaidizi unaohitajika sana wa kifedha na hata usio wa kifedha kwa wateja wetu ambao bado wameathiriwa na janga hili kuhakikisha wanahimili changamoto za sasa. Kujitolea kwetu kusaidia wateja kupitia mzozo huu kuliwasaidia kujiimarisha tena kutoka kwa mazingira ya kibiashara yenye changamoto..

Wakati huo huo, Kundi linapigania kukolezwa kwa njia za kidijitali kipindi hiki kama njia salama ya kupokea huduma za benki katika masoko yetu. Kuhamia kwa huduma za benki dijitali kumepokelewa vyema na wateja wetu ambapo 98% ya shughuli za kibiashara au miamala kwenye benki yetu sasa zinafanyika nje ya ukumbi wa benki. Tumetembea safari hii na wateja wetu kwa mwaka huu na hilo linaonekana katika utafiti wetu wa kuridhika kwa wateja na huduma zetu, ambapo kipimo cha uwezekano wa wateja kutupendekeza kwa wengine kwa mwaka 2021 kilifika asilimia 53.

Uchumi katika mataifa ya kanda hii uliandikisha ukuaji kutokana na kuimarika tena kwa sekta nyingi. Hata hivyo, mazingira ya uendeshaji shughuli yamesalia kuwa na changamoto, na bado hali ni ya kutotabirika, lakini tuko katika nafasi nzuri ya kupitia hali hii na kutimiza ahadi zetu kwenu kama wenyehisa wetu.

Matokeo yetu ya Kifedha

Mwaka 2021 ulikuwa mwema kwa Kundi na kila mmoja alitekeleza wajibu wake kuhakikisha Benki inasalia juu. Utathmini wangu wa matokeo ya 2021 ni kuwa yalikuwa matokeo mazuri na ya kuridhisha.

Huu ulikuwa mwaka mzuri, na wafanyakazi wetu walitekeleza mchango muhimu kuhakikisha Benki ilisalia kwenye mkondo. Tuliandikisha rekodi kadha muhimu, nyingi ambazo zimeelezwa kwenye ripoti hii, ikiwa ni pamoja na kufikia viwango vingine vya kifedha. Faida ya Kundi kabla ya ushuru iliongezeka zaidi ya maradufu mwaka 2021. Faida baada ya ushuru ilifikia KShs 34.2 bilioni ukilinganisha na KShs 19.6 bilioni, ongezeko la 74%, kutokana na ongezeko la mapato na kupungua kwa pesa tulizohitajika kuhifadhi baada ya mambo kuimarika zaidi kutoka kwa janga la COVID-19 mwaka ulivyosonga.

Mali yetu kwa jumla iliongezeka kwa 15% hadi KShs 1.14 trilioni, ikichangiwa na ukuaji wa jumla katika biashara zetu na pia ununuzi wa benki ya Banque Populaire du Rwanda (BPR) nchini Rwanda (inayohuduma sasa kama BPR Bank Rwanda Plc). Hili sio tu kwamba linatupandisha juu kwenye orodha ya benki duniani bali linatupatia msingi wa kutimiza ndoto zetu za siku za usoni.

Tulimaliza mwaka kama vipimo vyetu vya mtaji vikiwa juu ya mahitaji ya kisheria. Uwezo wetu wa mapato na uimara wetu kwenye mtaji vilituweka katika nafasi nzuri ya kukuza biashara yetu na wakati huo huo kutoa matokeo mazuri kwa wenyehisa wetu kupitia mgawo wa faida na kuimarika kwa bei ya hisa zetu.

Kuongeza uwepo wetu katika Kanda

Agosti 2021, tulikamilisha ununuzi wa Banque Populaire du Rwanda (BPR). Sasa tumeifungamanisha KCB Bank Rwanda na BPR kubuni BPR Bank Rwanda Plc, ambapo, tukisonga mbele, itakuwa sasa ndiyo nembo yetu katika soko la Rwanda. Benki hiyo ya pamoja itakuwa ndiyo benki ya pili kwa ukubwa nchini humo ikiwa na 17% ya soko humo na kutupa mchango mkubwa zaidi wa kutekeleza nchini humo na katika vitengo vyote vya wateja.

Ingawa tulisitisha juhudi zetu za kutaka kuinunua BancABC nchini Tanzania baada ya kukosa kupata idhini ya kisheria kabla ya wakati ulioafikiwa, tuna imani katika biashara yetu ya sasa na matumaini katika soko hilo. Kampuni yetu tanzu nchini humo iliandikisha ukuaji wa faida wa 117% kabla ya ushuru (PBT). Hii inadhihirisha uwezo wetu wa kupata ukuaji wa kawaida katika biashara zetu za kimataifa, juu na zaidi ya ununuzi wa benki nyingine.

Agosti 2021, tulikamilisha ununuzi wa Banque Populaire du Rwanda (BPR). Sasa tunaifunga manisha KCB Bank Rwanda na BPR kubuni BPR Bank Rwanda Plc, ambapo, tukisonga mbele, itakuwa sasa ndiyo nembo yetu katika soko la Rwanda."

Mwaka 2021, biashara zetu katika kanda ziliandikisha ukuaji wa kawaida wa 69% na faida kabla ya ushuru ya KShs 6.2 bilioni. Ununuzi wetu wa BPR ulituongezea faida kabla ya ushuru ya KShs 477 milioni na kuongeza mchango wa kampuni tanzu nje ya KCB Bank Kenya hadi 14%, ambapo ni alama 6% pekee chini ya lengo letu la mkakati la 20%.

Strategy Review

Ili kuongeza uwepo wetu katika kanda, tunasubiri kwa hamu kuingia Jamhuri ya Kidemokrasia ya Congo (DRC). Tunaamini kuwa soko hilo lina uwezo mkubwa kibiashara na kifedha ambao haujatumiwa; na kuna fursa ambazo zimedhihirika baada ya taifa hili kukubaliwa kujiunga na Jumuiya ya Afrika Mashariki (EAC). Kwa sasa, Kundi letu lina uwepo katika mataifa yote sita ya EAC jambo linalotuwezesha kufanikisha shughuli za kibiashara bila kujali mipaka. DRC inapojiunga na jumuiya hii, huenda tusiweze kutumia fursa zote zitakazoletwa na hatua hiyo bila uwepo wetu katika mataifa yote ya jumuiya hii.

Kusaidia Biashara Ndogo na Wastani (MSME)

Kama Kundi, tumetambua Biashara Ndogo Ndogo na za Wastani (MSME) kama sehemu ambayo tutaangazia ili kuongeza maradufu mikopo yetu kwa soko hili kufikia 2023, na sio Kenya tu bali pia katika kampuni zetu zote tanzu.

Mwishoni mwa mwaka jana, tulizindua upya huduma zetu kwa sekta ya Biashara ndogo na Wastani (MSME) chini ya kampeni ya 'Partner kwa Ground' ikimaanisha mshirika mashinani. Ujumbe wetu kwa wateja ni kwamba tunataka kuwa mshirika wao mashinani, na kuwapa bidhaa na huduma za kifedha zitakazosaidia kuimarisha biashara zao. Lengo letu la kutoa huduma kwa biashara ndogo na wastani ni kutoa nafasi bora ziweze kukua (MSME) kampuni kubwa za kizazi kijacho. Kampeni hii yetu ni njia ya KCB kujitolea kusafiri na wateja wetu na kujenga sekta hii kwa ajili ya siku za baadaye.

Shughuli za Kibiashara Endelevu

Janga la COVID-19 limetoa changamoto kwa wasiotarajia mema ambao huenda walishuku umuhimu wa kufungamanisha Uendelevu na shughuli zao za kibiashara. Kama Kundi, tumekoleza ajenda yetu ya Uendelevu, ambayo nguzo zake ni mazingira, jamii, uchumi na kifedha. Hii ni kwa kutambua kwamba umuhimu wa biashara sio tu kutengeneza faida, bali pia kubadilisha maisha katika jamii tunakohudumu na wakati huo huo kuhakikisha shughuli zetu zinajali mazingira. Tumeshirikiana na wadau wenye maoni sawa, na kuambatana na hili, mwezi Oktoba, tulianzisha Maadili ya kufuatwa na watoaji huduma wote wetu. Wanahitajika kufuata mwongozo na maadili hayo ya uendeshaji shughuli endelevu.

Katika kuendeleza azma yetu ya kujali mazingira na kuendana na kufanyika kwa Kongamano la Umoja wa Mataifa kuhusu Mabadiliko ya Tabia nchi la 2021, maarufu kama COP26, tulitia saini lengo la kutokuwa tunachangia gesi ya mkaa kufikia 2050, ambapo tulijiunga na taasisi nyingine duniani katika kuahidi kutoongeza gesi ya mkaa. Kama Kundi, tunakaribisha pia hatua ya Benki Kuu ya Kenya (CBK) ya kutoa Mwongozo wa Udhibiti wa Hatari ya Tabia nchi. Hii ni hatua nzuri kwani itahakikisha wadau wote wanachukua hatua kupunguza hatari za mabadiliko ya tabia nchi.

Ili kuendesha biashara endelevu, ni muhimu kuwa na vyanzo mbalimbali au anuwai vya mapato. Kwa mwaka 2022, tunaangazia njia mbili kuu. Mwanzo, tutaangazia kutekeleza mkakati wa Huduma za Kifedha za Dijitali (DFS) ambapo tutaiweka DFS kama jukwaa la kuifanya sehemu kuu ya biashara yetu kuwa dijitali na pia kujenga njia mpya za kujipatia mapato. Tutajenga pia mtandao wa wasambazaji wa bidhaa na huduma na pia kukuza mfumoikolojia kwa kuwakumbatia wafanyabiashara wanaowaleta pamoja watoaji huduma na pia kampuni za kiteknolojia zinazotoa huduma za kifedha.

> **"Kama Kundi, tumetambua Biashara Ndogo Ndogo na za Wastani (MSME) kama sehemu ambayo tutaangazia ili kuongeza maradufu mikopo yetu kwa soko hilo kufikia 2023, na sio Kenya tu bali pia katika kampuni zetu zote tanzu.**

Tutatumia idadi yetu kubwa ya wateja kufanikisha ukuaji. Pili, tutaendeleza juhudi za kukuza ada za huduma na mapato ya ubadilishanaji wa fedha. Kwa hili, tutaangazia kukuza ada za huduma kupitia kufikisha huduma mbali na pia kuongeza viwango vya shughuli za kibiashara kutoka kwa wateja wetu waliopo, na pia kutoa huduma zaidi za ubadilishanaji wa fedha, na kutekeleza Muundo wa Hazina Kuu ya Kanda.

KShs. 1.14 Trilioni
Mali ya Kundi

KShs. 34.2 Bilioni
Faida baada ya kutozwa ushuru

KShs. 109.3 Bilioni
Mapato ya Kundi

Katika kuendeleza azma yetu ya kujali mazingira na kuendana na kufanyika kwa Kongamano la Umoja wa Mataifa kuhusu Mabadiliko ya Tabia nchi la 2021, maarufu kama COP26, tulitia saini lengo la kutokuwa tunachangia gesi ya mkaa kufikia 2050, ”

Kujenga Nembo kuu ya Kanda

Mwaka 2014 KCB ilianza juhudi za kuiboresha nembo yake kuwa muwezeshaji wa biashara ili kukidhi mahitaji ya wateja. Mabadiliko haya yalituwezesha kujilainisha na masoko na kusaidia utimizaji wa mkakati wa Benki kupitia lengo lililoelezwa vyema la (Kurahisisha Ulimwengu wako Kukuwezesha Kuendelea), maadili na tabia. Matokeo yake ni kwamba nembo ya KCB ilikua zaidi pamoja na matokeo yetu ya kifedha. Kundi la KCB kwa sasa limefika hatua nyingine ya mabadiliko. Mazingira ya kibiashara yanaendelea kubadilika, na ni lazima tuendelee kubadilika nayo ili kutumia fursa mpya zinazotokea na pia kuendelea kuwa wa maana kwa wateja wetu kama mtoaji huduma za kifedha anayependwa zaidi katika masoko tunayohudumu. Tumeanza kazi ya kuiboresha nembo yetu kuhakikisha tunajilainisha zaidi na mkakati na azma ya Zaidi ya Benki.

Ajenda ya Watu

Mafanikio yetu katika kipindi tunachoangazia hayangewezekana bila bidii na kujitolea kwa kila mmoja wa wafanyakazi wetu ambao wameendelea kuamini na kutekeleza mkakati wetu. Tuko hapa tulipo leo kwa sababu ya kujitolea na kujituma kwao. Ili kudumisha ukuaji, Kundi litaendelea kuwekeza katika kuimarisha uwezo wao wa kutekeleza majukumu kupitia mafunzo zaidi. Kutokana na uwekezaji tulioufanya awali, tunaweza kutoa mafunzo ya aina nyingi kote katika kanda kupitia masomo ya mtandaoni. Mafunzo haya yanatoa ujuzi muhimu katika maeneo kama vile teknolojia ya Habari na mawasiliano na usalama wa mtandaoni, afya na usalama, kukabiliana na utakatishaji wa fedha, uendelevu miongoni mwa mengine.

Ili kuwezesha watu kurejea kazini kwa njia salama, Kundi letu lilitetea na kusaidia kampeni za utoaji chanjo kwa wafanyakazi wetu na jamaa zao kote katika kanda. Nina furaha kwamba zaidi ya 90% ya wafanyakazi wetu wamepata angalau dozi moja ya chanjo. Ingawa hatujaweka lazima kwa wafanyakazi wetu kuchanjwa, tumetiwa moyo na jinsi walivyokumbatia kampeni hiyo na kupokea chanjo kujilinda wenyewe, familia zao na wafanyakazi wao. Hii iliwezesha wafanyakazi wetu kurejea kazini 100% katika biashara zetu zote kufikia Desemba 2021.

Na 2021, tulikamilisha kuunda Kamati Kuu Tendaji baada ya kuthibitishwa kwa Bernard Okello kama Mkurugenzi wa Mikopo wa Kundi na uteuzi wa Rosalind Gichuru kama Mkurugenzi wa Kundi wa Mauzo na Utangazaji, Mawasiliano ya Kampuni na Uraia. Bernard na Rosalind wanaleta uzoefu wa miaka mingi katika sekta ya benki kulisaidia Kundi letu kufanikiwa hata zaidi.

Mustakabali wa 2022

Kama Kundi, tumeweka mipango yetu na kuchagua maeneo yatakayoongoza shughuli zetu siku zijazo. Mkakati wa Zaidi ya Benki bado ndiyo nanga kwa biashara yetu. Jango la corona likiwa bado lipo na ukizingatia kwamba ni mwaka wa uchaguzi Kenya, tuna matumaini ya kufanikiwa ingawa kwa tahadhari kuhusu mwaka huu. Hata hivyo, tunatarajia biashara yetu kuwa imara kutokana na kuimarika kwa uchumi.

Tukitazama mbele, KCB inaamini katika kuwa shirika linaloongozwa kwa malengo na linalowatambua wadau wake wote na kuendesha biashara endelevu inayoifaa jamii kama raia-shirika mwema na kujishindia leseni ya kuhudumu. Tutaendelea kutekeleza mikakati muhimu ya kuongeza azma hii yetu.

Wakfu wa KCB utaangazia kuuboresha mpango wa Vijana Afrika (Young Africa Works) kwa ushirikiano na Wakfu wa Mastercard. Tutapanua pia uwekezaji wetu katika sekta ya elimu ili kuwa na msaada kamili wa masomo ya vyuo vikuu na mipango ya watu kujifunza kazi. Pia tutaongeza na kuzindua mipango ya Wakfu wetu katika masoko ya Burundi na Sudan Kusini.

Kuhusu Uendelevu, vipaumbele vyetu ni kuongeza sehemu ya mikopo tunayotoa kwa biashara za kujali mazingira hadi 12.4%, kutathmini hatari na fursa kuhusiana na mabadiliko ya tabia nchi, kuboresha umakinifu wetu katika udadisi wa Usimamizi wa Mazingira na Jamii (ESG), kuendeleza ndoto ya kutoongeza gesi ya mkaa na utekelezaji wa Malengo ya Maendeleo Endelevu (SDG). Kadhalika, uwezeshaji wa wafanyakazi wetu wanaoangazia ukopeshaji katika mabadiliko ya tabia nchi na mazingira.

Nikihitimisha, ningependa kuwashukuru wafanyakazi wetu wote kwa kujitolea kwao wakati wa janga. Ni kupitia tu juhudi zao za pamoja ambapo tuliweza kuimarisha nafasi yetu sokoni na kulinda maslahi ya wenyehisa. Vile vile, ningependa kutambua usaidizi na uongozi ambao wasimamizi pamoja nami pia tumepokea kutoka kwa Bodi ya Wakurugenzi tunapojizatiti kuhakikisha Kundi la KCB linaendelea kufanikiwa hata zaidi katika kanda hii. Nawashukuru wadau wetu wote kwa usaidizi wao na imani ambayo wamekuwa nayo kwangu, na Kamati Kuu Tendaji, katika kuongoza Kundi la KCB.

Joshua Oigara, CBS

Afisa Mkuu Mtendaji wa
Kundi na Mkurugenzi Mkuu

Our Leaders

Executive Committee

Lawrence Kimathi

Group Chief Finance Officer

Joshua Oigara, CBS

Group Chief Executive Officer and Managing Director

Samuel Makome

Chief Commercial Officer

Our Leaders

Paul Russo

MD NBK & Group Regional Business Director

Japheth Achola

Group Human Resources Director

Bonnie Okumu

Group General Counsel

Joachim Steuerwald

Group Chief Technology Officer

John Mukulu

Group Chief Risk Officer

Dr. Leonard Mwithiga

Group Shared Services Director

Rosalind Gichuru

Group Director, Marketing, Corporate Affairs & Citizenship

Bernard Okello

Group Director Credit

The Executive Committee members' profiles are available on https://ke.kcbgroup.com/about-us/our-leaders

Strategy Review

Report from the Group Chief Finance Officer

Operating Environment

We began 2021 with a better grasp and outlook of our performance considering the COVID-19 pandemic and its consequences, not just for the Bank but for the entire economy. Against this backdrop, we navigated the year with cautious optimism that the operating environment across all the markets we have a presence in, would recover. In line with this projection which we held together with many other companies, the economies in the region registered GDP expansions in 2021 with some bouncing back to pre-pandemic levels.

Our lead market, Kenya, registered a 7.5% GDP growth in 2021, compared to a contraction of 0.3% in 2020. This is attributed to improved performance in key sectors of the economy including manufacturing, wholesale and retail trade, real estate, transportation and storage, and financial and insurance activities. A similar pace of recovery reverberated across the region with the continued easing of the containment measures which we are confident will sustain performance in 2022.

Amid this evolving environment, the Group managed to record strong results for the year backed by our proactive approach towards ensuring business continuity by managing liquidity, conservation of capital, and cost containment. Furthermore, our focus on exceptional customer experience, enhancement of efficiency and productivity, and deepening digitization enabled us to maintain robust asset growth and deliver healthy return on our investments. We have effectively demonstrated our combined abilities and competencies in managing and responding to the impact of the healthcare crisis across all our markets.

Performance Overview

Improvement in the economic environment mainly in Kenya, Uganda and Rwanda supported increased lending activities to key sectors. We took a vantage position to capitalize on this improvement by delivering superior customer propositions to meet the diverse financial needs of our various markets and grow our asset portfolio. Our investment in deepening digitization and optimizing our network spread enabled us to serve a wide demographic of customers in an efficient manner delivering both enhanced customer experience and balance sheet growth.

This saw our net loans and advances grow by 13% to KShs 675.5 billion. At the same time, gross customer loans grew by 12% to KShs 741.6 billion mainly driven by personal and manufacturing sectors. Corporate and consumer banking represents the bulk of

Strategy Review

our loan book with 49% and 29% respectively with the remainder split between MSME, premium, staff, diaspora, and digital loans.

The above growth in loans and advances was supported by a 9% growth in customer deposits to KShs 837.1 billion, occasioned by a growth of KShs 69.9 billion.

This strong growth enabled us to surpass the one trillion shillings mark with total assets growing by 15% to KShs 1.14 trillion.

We successfully concluded the acquisition of Banque Populaire du Rwanda in August 2021 which contributed KShs 48.0 billion in total assets to the KCB Group balance sheet. We have since completed the process of integrating the two businesses in Rwanda to form BPR Bank Rwanda Plc.

Solid Profitability Metrics

Improvement in key macro indicators supported our operations in two key fronts by growing our income from the increased economic activities and reducing provisions because of improvements in the operating conditions for previously strained customer segments.

A strong growth in interest income driven by an increase in earning assets, higher non-interest income on the back of increased transactional volumes and foreign exchange income, and lower cost of funding saw the Group record a 15% rise in total income to KShs 109.3 billion. The KShs 142 billion growth in earning assets coupled with interest write-backs on previously restructured facilities saw our net interest income grow by KShs 15.3 billion.

Operating Expenses and Loan Loss Provisions

During the year, the Group continued to enhance cost efficiencies through roll out of cost management initiatives to ring-fence the business from any adverse impacts from the constantly evolving operating environment. One of these initiatives is the ongoing integration process for shared services between our two banking subsidiaries in Kenya — KCB Bank Kenya and National Bank of Kenya (NBK) — which yielded KShs 117 million in savings in 2021. As a result of these initiatives, other operating expenses excluding staff costs and depreciation grew at par with average inflation rates during the year to KShs 17.0 billion. An increase in performance-based pay occasioned by the improved results in 2021 saw staff costs grow by 22%. Overall, total operating expenses declined by 11% to KShs 62.0 billion over the period. At the onset of the pandemic, the Group had proactively supported strained customers with their loans being restructured and all COVID-19 related provisions absorbed in 2020. This translated to a 49% decline in loan loss provisions to KShs 14.0 billion in 2021.

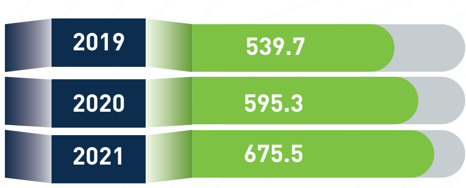
The top line growth coupled with cost containment measures saw our net profit grow by 74% to KShs 34.2 billion from KShs 19.6 billion in 2020 enabling us to deliver an improved return on average equity of 22.4%.

This solid performance translated to an earnings per share of KShs 10.61. The Board approved and paid a dividend of KShs 1.00 per share for the nine-month period to September 2021. As evidence of our continued improved performance, the Board has further recommended a final dividend of KShs 2.00 per share to bring the total payout to KShs 9.6 billion for the year. This coupled with the price appreciation of 19.3% that our stock registered during the year brings our total shareholder return to an impressive 27.2% in 2021.

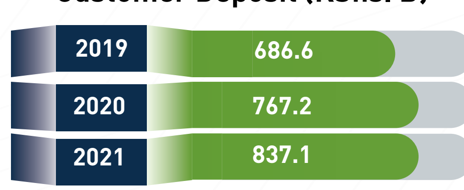
Asset Quality

Over the course of the period, the Group took deliberate steps to guard against deterioration in asset quality. This entailed keeping a close watch of the portfolio through a specially constituted early alert committee to identify early vintage warnings and take corrective action in good time. Furthermore, we also made concerted efforts toward improving the quality of underwriting and customer appraisals. As a result of these efforts, the

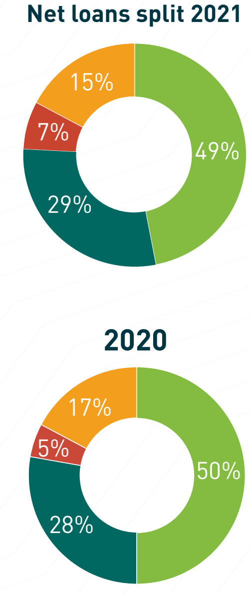
Net loans and advances (KShs. B)



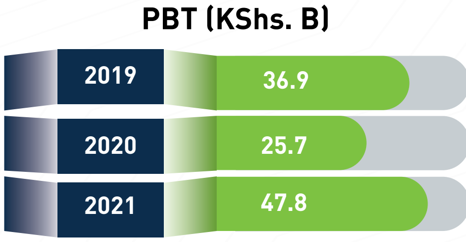
Customer Deposit (KShs. B)



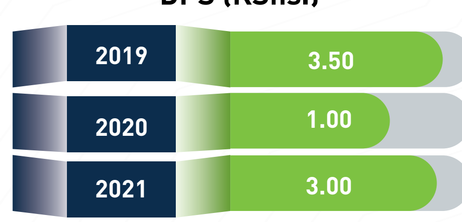
Net loans split 2021



PBT (KShs. B)



DPS (KShs.)



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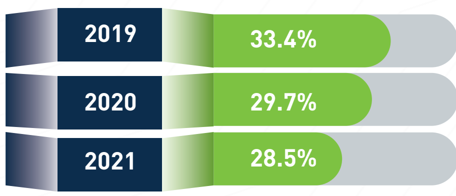
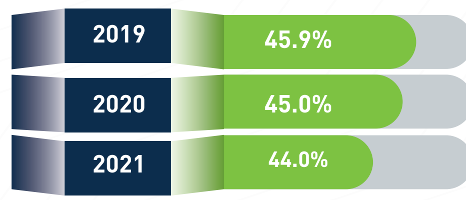
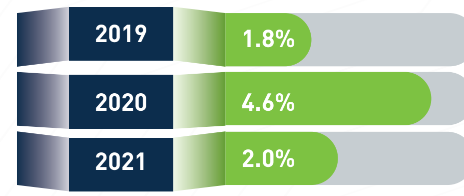
Non-funded income ratio



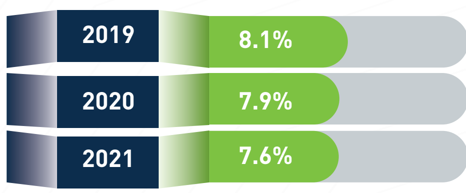
Cost-to-income ratio



Cost of risk

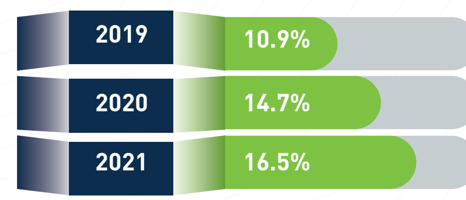


Net interest margin



Loan loss provisions (KShs. B)

Group NPL ratio



cost of risk improved by 260 bps to 2.0% driven by reduced provisions in corporate and digital loans. The stock of non-performing loans (NPL) rose to KShs 121.7 billion, from KShs 107.9 billion posted in 2020 mainly from KCB Bank Kenya and partially offset by a reduction in NBK, KCB Bank Rwanda, and KCB Bank Tanzania stock. Additionally, the acquisition of BPR contributed KShs 1.7 billion to the NPL stock. The expansion of the NPL stock resulted in an NPL ratio of 16.5%.

A closer watch over the corporate and SME borrowing customers was adopted to better inform provisioning assumptions and ensure adequate coverage levels were maintained. Due to the rise in NPL, our coverage ratios remained below our medium-term target of 70% with IFRS and regulatory coverage closing the year at 56.8% and 60.0% respectively.

Capital and Liquidity Levels

From the onset of the pandemic, regulators and banks alike have focused on maintaining strong capital and liquidity ratios. Improved performance during the period coupled with the Group's move to increase the proportion of retained earnings from the 2020 performance contributed to strengthening these ratios and to the enhanced capacity of the Group to aggressively grow our risk weighted assets.

As a consequence of the above, all capital ratios across the Group but with the exception of NBK, were well above the minimum regulatory requirements, giving us a strong headroom for growth. The Group's total capital stood at KShs 187.9 billion, representing a total capital to risk-weighted assets ratio of 21.7%. The core capital to total risk-weighted assets closed the period at 18.0%.

Towards the end of 2021, the Group improved the capital position in NBK by converting the tier II debt of USD 30 million it had advanced to the subsidiary in 2021, to tier I capital thus enabling it to meet it's core capital requirement and bolster its lending capacity.

In Uganda the regulator moved to increase minimum capital requirements by 200 basis points. We shall continue to monitor our capital position across the Group and offer support to not only meet regulatory requirements but also support the growth agenda.

As part of our cash management strategy, various treasury actions were implemented to sustain a healthy liquidity. This enabled us to maintain an average liquidity of 39.5% and close the year with a headroom of 1,930 basis points over the 20% regulatory minimum.

Subsidiary Business Performance

The improvement of economic conditions in the region during the year supported a strong performance growth across our subsidiaries with a PBT growth of 82%. Excluding the acquisition of BPR, our subsidiaries delivered an organic growth of 69% in PBT to KShs 6.2 billion. A similar organic growth was observed in the asset book with a growth of KShs 33 billion in total assets, KShs 43

Subsidiary NPL ratios %	2020	2021
KCB Bank Kenya	12.4%	15.9%
National Bank of Kenya	38.1%	31.6%
KCB Bank Tanzania	6.1%	2.7%
KCB Bank South Sudan	68.7%	29.6%
KCB Bank Uganda	6.8%	5.4%
KCB Bank Rwanda	5.1%	1.8%
KCB Bank Burundi	4.1%	1.8%
Banque Populaire du Rwanda	-	7.5%

Subsidiary Total Capital Ratios	2021	Minimum Requirement	2020
KCB Bank Kenya	20.2%	14.5%	19.4%
National Bank of Kenya	14.3%	14.5%	10.3%
KCB Bank Tanzania	16.6%	12.0%	16.1%
KCB Bank South Sudan	112.0%	12.0%	135.0%
KCB Bank Uganda	15.6%	12.0%	17.9%
KCB Bank Rwanda	18.2%	12.0%	16.3%
KCB Bank Burundi	38.2%	12.0%	31.7%
Banque Populaire du Rwanda	24.1%	12.0%	-

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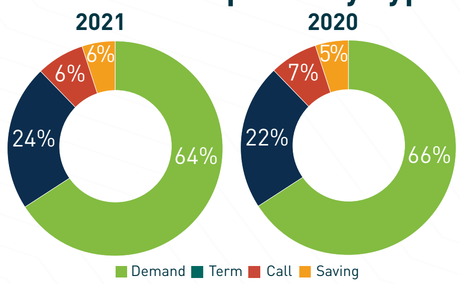
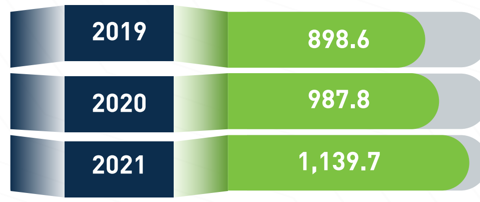
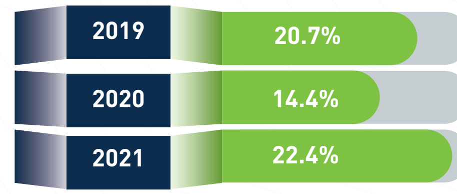
Customer Deposits by Type



Total Assets (KShs Billion)



ROE



billion in net loans and KShs 15 billion in customer deposits. This underpins our ability to continue growing our existing businesses across the region over and above our targeted acquisition drives.

Having completed the acquisition of BPR within the year, the new subsidiary brought in KShs 21 billion in net loans and KShs 26 billion in customer deposits to our Group balance sheet. Furthermore, the acquisition contributed KShs 477 million in PBT to our bottom-line for the five months in 2021 which we have consolidated the Bank's results in our books post acquisition, raising the total contribution of our subsidiaries outside of KCB Bank Kenya to 14% and well on course towards our 20% target.

2022 Outlook

We aspire to continue our growth trajectory with a strong balance sheet and robust revenue generation with a particular focus on non-interest revenue growth, optimization of resources, and the strong performance of our subsidiaries. We remain dedicated to our Group's purpose of simplifying lives to enable progress through investments to improve our customer journey's, deepening of digitization to diversify our revenue sources and enhance our efficiency and scaling our regional businesses.

We are confident that the continued improvement in our operating environment will support our drive towards delivering a superior shareholder return in 2022 and beyond.

Lawrence Kimathi

Group Chief Finance Officer

Value Added Statement

	31 Dec 17 KShs. Million	31 Dec 18 KShs. Million	31 Dec 19 KShs. Million	31 Dec 20 KShs. Million	31 Dec 21 KShs. Million
Value Added					
Interest Income, Fees, Commission and Other Revenues	86,673	89,253	102,522	116,899	133,097
Interest Paid to Depositors and Cost of Other Services	(33,205)	(32,916)	(39,345)	(62,348)	(50,653)
Interest paid on borrowings	(2,126)	(1,986)	(1,954)	(1,953)	(3,448)
Wealth Created	**51,342**	**54,351**	**61,224**	**52,600**	**78,996**

	2017		2018		2019		2020		2021	
Distribution of Wealth										
Employees-Salaries, Wages and Other Benefits	19,146	37.3%	17,007	31.3%	19,459	31.8%	20,451	38.9%	24,729	31.3%
Government-Tax	9,410	18.3%	9,864	18.1%	11,732	19.2%	6,115	11.6%	13,642	17.3%
Shareholder's Dividends	9,198	17.9%	10,731	19.7%	11,099	18.1%	3,213	6.1%	9,640	12.2%
Retention to support future Business Growth:										
Retained Earnings	10,506	20.5%	13,264	24.4%	14,066	23.0%	16,391	31.2%	24,559	31.1%
Depreciation and Amortization	2,791	5.4%	3,146	5.8%	4,387	7.2%	5,919	11.3%	6,028	7.6%
Social Capital-KCB Foundation	291	0.6%	339	0.7%	481	0.8%	511	1.0%	399	0.5%
Wealth Created	**51,342**	**100%**	**54,351**	**100%**	**61,224**	**100%**	**52,600**	**100%**	**78,996**	**100%**

Strategy Review

Five Year Review

Consolidated statement of financial position

	31 Dec 17 KShs. Million	31 Dec 18 KShs. Million	31 Dec 19 KShs. Million	31 Dec 20 KShs. Million	31 Dec 21 KShs. Million
Assets					
Government and other securities	109,737	120,070	164,866	210,784	276,293
Loans and advances to customers (net)	422,685	455,880	539,747	595,255	675,481
Property and equipment	10,454	11,007	13,132	14,629	16,993
Other assets	103,792	127,356	180,827	167,142	170,905
Total Assets	**646,668**	**714,313**	**898,572**	**987,810**	**1,139,672**
Liabilities					
Customer Deposits	499,549	537,460	686,583	767,224	837,141
Lines of Credit	25,934	42,552	42,184	56,700	85,378
Other Liabilities	15,220	20,640	40,064	21,463	43,646
Total Liabilities	**540,703**	**600,652**	**768,831**	**845,387**	**966,165**
Total Equity	**105,965**	**113,661**	**129,741**	**142,423**	**173,507**
TOTAL LIABILITIES AND EQUITY	**646,668**	**714,313**	**898,572**	**987,810**	**1,139,672**

Consolidated statement of profit and loss

	31 Dec 17 KShs. Million	31 Dec 18 KShs. Million	31 Dec 19 KShs. Million	31 Dec 20 KShs. Million	31 Dec 21 KShs. Million
Interest Income	63,673	66,280	79,644	96,261	114,826
Interest Expense	(15,288)	(17,450)	(18,220)	(21,209)	(24,463)
Net Interest Income	**48,385**	**48,830**	**61,424**	**75,052**	**90,363**
Non-Interest Income	23,000	22,973	22,877	20,012	18,960
Operating Income	**71,385**	**71,803**	**84,301**	**95,065**	**109,323**
Operating Expenses	(34,996)	(34,698)	(38,679)	(42,360)	(47,991)
Impairment on Loans and Advances	(5,914)	(2,944)	(8,889)	(27,509)	(13,988)
Total Expenses	**(40,910)**	**(37,642)**	**(47,568)**	**(69,869)**	**(61,547)**
Profit Before Tax and Loss on Monetary Position	**30,475**	**34,161**	**36,733**	**25,589**	**47,599**
Gain/Loss on Monetary Position	(1,361)	(302)	164	130	216
Profit Before Income Tax	**29,114**	**33,859**	**36,897**	**25,719**	**47,815**
Income Tax Expense	(9,410)	(9,864)	(11,732)	(6,115)	(13,642)
Profit for the Year	**19,704**	**23,995**	**25,165**	**19,604**	**34,173**

Our Strategic Themes

2021 marked the second year of our 2020 – 2023 strategic cycle. Over this period, the Group is banking on the Beyond Banking strategy to deliver exceptional customer experience and drive a digital future. The strategy is anchored on four strategic thrusts namely customer first with leading value propositions; step change in efficiency and productivity; digital leader and digital to the core; and scale to achieve regional relevance.

The delivery of our ambitious aspirations is enabled by putting in place modern IT architecture, processes, and capabilities; enhanced end to end credit and risk management; and rigorous performance management engine with enabling organisational structure.

Below is a detailed review of our performance on all the four thrusts, detailing our progress over the period. The review also provides insight into our strategy, and how it relates to our ability to utilize the capitals at our disposal to create value in the short, medium, and long term.

01 Customer-First, with Leading Value Proposition

Customer experience has become the key competitive differentiator in the financial services sector. Banks are providing digitally-driven customer experiences.

Customer experience has become the key competitive differentiator in the financial services sector. Banks are providing digitally-driven customer experiences in assisted channels and online including offering advice, value-added services, and 'always on' banking, helping individuals and businesses to meet their financial dreams and economic aspirations.

At KCB, we keep the customer at the center of all that we do. Our focus on customer excellence looks beyond solutions aimed at enhancing customer satisfaction, it is embedded in our product design to ensure that we meet the financial needs of our customers. We bank on digitization, innovation, data analytics and machine learning to ensure that we deliver superior products and service levels across all our touch points.

53

Customer NPS in 2021, up from 51 in 2020

Social & Relationship Capital

At KCB, we believe that the Group can only grow if the communities that have granted us the social license to operate do as well. Our social and relationship capital is built on this foundation. For over two years, since the pandemic began, the Group reaffirmed this belief by implementing several initiatives to assist our customers and communities. Fee exemptions and debt modification were among the actions taken to provide much-needed relief for our clients, as well as donations to support various COVID-19 response programmes in the areas where we operate.

The KCB Foundation continues to advocate for sustainable development, poverty reduction, and improved community well-being in the locations where the Bank operates. This is accomplished through the Foundation's shared value philosophy, which advocates for businesses to solve societal concerns. 2jiajiri, a focused skills and entrepreneurship training for the youth, and Mifugo Ni Mali, a livestock value chain assistance programme, are two of the initiatives that focus on enterprise development.

The third pillar is the high school scholarship programme, which grants full scholarship to deserving impoverished kids who cannot afford the expense of a four-year high school education, as well as the associated costs of uniforms, books, and transportation. With programmes targeting skills and enterprise training for the youth in Rwanda, Tanzania, and Uganda, the KCB Foundation customises these initiatives in each of the KCB subsidiaries to ensure that they address the critical development priorities.

In keeping with the 17th Sustainable Development Goal of the United Nations, KCB relies on the power of partnerships to fulfill its development objectives. Every partner who has played a crucial role in strengthening the programmes' reach and impact has expedited the progress made in the Foundation's programmes. The Foundation has funded over KShs. 3 billion in community programmes across the region over the previous 14 years.

1 NO POVERTY
10 REDUCED INEQUALITIES
17 PARTNERSHIPS FOR THE GOALS

Strategy Review

Customer Excellence

Despite 2021 being a difficult year, we delivered on several initiatives to improve customer excellence. Key among these initiatives was an improvement in service times across our branch networks as well as shortening of approval times for credit applications. To achieve this, we put in place robust systems, reviewed customer journey maps, and enhanced staff training across the branches to speed up turnaround time. As a result, the average wait time for service across our branches reduced from 14 minutes in 2020 to 8 minutes in 2021.

In an increasingly digital world, our customers expect us to deliver more personalized and frictionless experiences. During the year we obtained a bulk email solution that gave us direct access and wide reach to our customers to enable us communicate more efficiently. With this solution, we now run bulk email campaigns to the right audience with a capability of over 1 million emails within three hours. This is a great improvement from the 20,000 to 30,000 emails we were previously able to send out in a day.

There is increased demand for digital banking services from our customers, and over 98% of transactions are taking place outside physical branches. To further ease access to banking services, an enhancement on mobile banking was done earlier in the year to enable our customers to access financial services on Mobi and other non-branch channels. We launched the Internet Banking (iBank) mobile application to drive usage of digital platforms.

To continue delivering the best to gain their trust and market share, we will conduct more customer surveys and create awareness about our support and service offering through the various Bank channels. We also ensure customers have a frictionless experience by monitoring service delivery across the branches.

Customers can now easily track their issues through the customer relationship management system, which gives them a ticket and sends a notification once the problem is resolved. Additionally, enhancements on the branch queuing system, credit processing system, and business process management system will keep customers appraised at every stage as their queries are resolved.

These efforts bore fruit with the improvement in the customer satisfaction score. The Group's net promoter score (NPS) improved from 51 in 2020 to 53 in 2021. However, the customer effort score (CES) increased from 20% to 26% mainly as a result of friction occasioned by system transition for mobile banking.

This was brought on by the migration from the old mobile banking platform to Vooma, and because of a few hitches in the system customers were rightfully disgruntled. There were delays in mobile banking registration, and complaints about listing on credit reference bureaus (CRB) which contributed to a decline in CES.

We rectified these issues promptly to give customers a smooth and seamless experience; new customers are signed up to mobile banking in the new portal without difficulty. To resolve the CRB complaints, customers now get automatic notifications when they update their loan status or make payments on past-due loans. Additionally, branches can quickly onboard customers on mobile banking with the new portal.

Our focus areas continue to be driving customer excellence across the Group, simplifying, and automating critical processes, and reducing CES in the coming year.

Improving Credit Access for MSMEs

In 2021, we rolled out a financing facility to cushion Micro, Small and Medium Enterprises (MSMEs) that were adversely affected by the global COVID-19 pandemic. The campaign dubbed Partner kwa Ground was rolled out in November 2021 to enable these enterprises to access loan facilities to boost their working capital post-pandemic.

With this campaign, we revised lending criteria through extended loan tenures and enhanced limits. Credit approval conditions were also reviewed to ensure we supported the MSMEs agenda to help them grow their businesses leading to an improvement in turnaround time to 6 days, below the target of 10 days.

In 2021, we rolled out a financing facility to cushion Micro, Small and Medium Enterprises.

The campaign dubbed Partner kwa Ground was rolled out in January 2021 to enable these enterprises to access loan facilities to boost their working capital post-pandemic.

For new-to-bank customers, we reviewed our scoring and proposed new criteria to win them over. To do this we partnered with credit reference bureaus to do background checks. We considered pricing as well because most of the industry players were still pricing at 13% and where justifiable we were willing to go lower.

This made it easier for the business to target new-to-bank customers and access credit with KCB. Additionally, it helped to grow the portfolio significantly once these business-friendly conditions were adopted.

KShs. 89 Billion

Size of Group MSME Loan Book in 2021

After implementing these measures, we doubled the number of applications and at the same time grew the approval rate from 65% to over 80%. As a result, the MSME loan book grew by 48%, from KShs. 60.0 billion in 2020 to KShs. 88.9 billion in 2021. At the same time the deposits from this segment grew by 23%, from KShs. 110.3 billion in 2020 to KShs. 135.0 billion in 2021.

We target to further grow the MSME portfolio in 2022 by leveraging our participation in risk sharing guarantees to risk lending to this segment. This will supplement the steps we have put in place such as the early warning mechanism through an Early Alert Committee to ensure that we anticipate problematic accounts, mitigate them, and turn them around quickly.

Women Proposition

To support entrepreneurship and job creation, we continue to strengthen and increase our outreach towards unique market segments like businesses owned or run by women. In 2021, the value of loans disbursed through the programme stood at KShs. 42 billion with KShs. 29 billion in deposits being mobilized. The non-performing loan (NPL) ratio also decreased from 3.8% in 2020 to 1.2%

The programme continues to positively impact the market by providing working capital and meeting non-financial training needs to support growth. For example, several training sessions have been designed to guide on ways to recover post-pandemic.

Since the launch of the Women Proposition programme, there has been an impressive turnout by female customers attending capacity building programmes. There is still a huge potential in the market to serve women-owned businesses adequately and the key to fill this gap is in non-financial services such as KCB Biashara Club.

Our Biashara club provides a mix of financial and non-financial services including training, webinars, and networking sessions. Over the years, these have contributed immensely to the Bank's bottom line. During the year under review, 68 webinars were organized with an attendance of 18, 937 customers. 99 Customers Clinics on the other hand had an attendance of 1,883.

Islamic Banking

Sahl achieved growth in several critical areas: Customer deposits grew by 23%, the asset book by 21%, operating profit by 23%, and net income by 20%. Additionally, the customer base grew by 30% from 53,000 customers in 2020 to 69,000 in 2021.

The growth in customer numbers can be attributed to product training at the regional level. More refresher training sessions and customer engagement forums are being held to boost product awareness. Meanwhile, plans are underway to launch a Shariah-compliant credit card.

The Shariah Advisory Council continues to play a crucial role in Sahl Banking. Through quarterly meetings, it has kept a close eye on the operations unit and engaged customers on Shariah compliance to help boost customer confidence. In 2021, we committed charity funds to buy food for orphanages in Kariobangi, Lamu and Mombasa during the month of Ramadhan. Furthermore, KShs. 2.5 million was spent to support two children's homes in Marsabit and Wajir Counties.

Corporate banking

In 2021, we made significant strides towards enhancing credit access to the corporate segment while at the same time supporting sectors such as hospitality, manufacturing, transport, and construction, which were adversely affected by the COVID-19 pandemic to help them recover. In the wake of the pandemic, we brought together stakeholders in the healthcare sector to identify possible opportunities; participated in a private corporate bond issuance and various syndication transactions for blue chip companies to a tune of KShs. 8 billion meant to support recovery post pandemic.

We provided market-leading solutions to various players in the construction sector including government agencies and private corporates to a tune of KShs. 7 billion geared towards supporting the government infrastructure investment agenda to open up the country to facilitate trade and movement of goods and service. With a significant portion of our customers affected by the pandemic which necessitated rollout of various measures to support them, we continued to support clients in some sectors that still faced strain through the restructure of existing facilities to match the prevailing cash flow trends. Clients in the real estate commercial space for example, received extended loan repayment tenors which in turn enabled them to cushion their retail tenants who had accrued rent arrears during the pandemic.

To spur lending during the year, we optimized the credit approval process and banked on digitization to improve turnaround time. We developed a simplified straight through processes for repeat borrowers and reviewed the customer journey maps. We also trained

KShs. 573 Million

Sahl Net Income

KShs. 6.9 Billion

Sahl Loan Book

KShs. 10.1 Billion

Sahl Deposits

Strategy Review

staff on how to package applications and developed a simple and unified checklist to get it right the first time and ensure consistency across all branches. These efforts ultimately contributed to a 13% growth in the Group net loans and advances to KShs. 675 billion.

During the year the industry experienced bouts of tight liquidity and rising deposit expenses largely driven by an increased borrowing appetite within our markets coupled with investors quest for higher yields. To attract low cost and stable deposits to fund our loan growth, we leveraged on cash management solutions through the provision of digital solutions to enable real time integration with our clients' systems to create efficiencies in collections, payments, and reconciliation. We also banked on innovative digital products such as Vooma which we piloted within fast moving consumer goods and trade segments and it has aided in shoring up our demand and savings deposits.

Furthermore, we continued to minimize the Environmental and Social (E&S) risks from our lending by screening the corporate loan book through Environmental and Social Due Diligence (ESDD). In 2021, we screened facilities worth KShs. 245 billion. To support this, we adopted a simplified screening tool which has been well received by both the teams and customers and has enabled a better understanding of the expectations and importance of E&S screening. We also developed action plans and covenants embedded in the facility agreements with our clients to ensure compliance which has resulted in increased accountability by our borrowers as we work with them to grow their businesses in a sustainable manner. Moreover, inclusion of ESDD reports as a measure of performance has led to an increase in awareness and mitigation of environmental and social risks.

16.5%
Group Non Performing Loans ratio in 2021

To attract low cost and stable deposits to fund our loan growth, we leveraged on cash management solutions through provision of digital solutions to enable real time integration with our clients' systems to create efficiencies in collections, payments, and reconciliation.

However, asset quality faced a significant strain during the year. The Group gross non-performing loans (NPL) ratio increased 180 basis points to 16.5% driven by the manufacturing, building and construction and hospitality sectors. Corporate banking in KCB Bank Kenya represents the bulk of these NPLs with all other subsidiaries outside Kenya registering an improvement in their NPL ratios. To reverse this trend, we have instituted an early alert committee to closely monitor the book in noted segments and developed processes that clearly define parameters for placing accounts that are showing signs of distress on watch and put in place interventions to remedy them. Our efforts have been buoyed by an improvement in the quality of underwriting evidenced by a reduction in early vintage. We also intend to aggressively grow a high-quality loan book and intensify recovery efforts on distressed assets. The efforts described above and activities in motion are all geared towards bringing down the Group NPL ratio to 13.0% by the end of 2022.

The corporate banking space is highly competitive, largely characterized by high volumes and low margins, and high client expectations. We have begun a benchmarking process to re-evaluate our business operating model with some of the best practices in the market with a new operating model to be implemented in 2022 and we are optimistic that this will drive our vision of being the undisputed corporate bank in the market. We will also continue to execute our strategy on client engagement to offer best-in-class customer service while ensuring that operational and credit risks continue to be well managed. We expect to increase the wallet share from our clients by providing holistic solutions to meet client needs in a one-stop model through collaboration with our partners in retail, digital financial services and bancassurance.

Technology

With an increased shift to digital and other online platforms, we know that customers need to be better supported with fast and modern technology. To this end, we undertook central system and network infrastructure upgrades during the year under review.

Compared with previous years, we processed more transactions on the digital channels and saw improved uptime of the core banking system and vital customer-facing channels with 99.8% availability.

With the implementation of crucial security capabilities like the Privileged Access Management system, CISOC, Data Centre Firewall, and full disk encryption, we improved the Bank's security and compliance.

For better customer experience, we also adopted vital best practices in service management, including service monitoring and service improvement initiatives, among others.

We have also achieved significant milestones in integrating the acquired subsidiaries of NBK and BPR, to ensure a seamless transition. This process continues to be successful through collaborations between all the stakeholders.

Cybersecurity continues to be a key concern for the Bank, and besides rigorous monitoring we are continuously investing in state-of-the-art technology, and adopting and implementing security capabilities to stay ahead of any cybercrime attacks.

02 Step Change in Efficiency and Productivity

Amid the time and resources channeled towards managing the transition to the new normal, we pushed ahead with our initiatives, maintaining steady progress towards becoming an agile and efficient Bank.

We streamlined our operational processes for greater efficiency by automating select manual processes while upskilling our people. We also reinvented our technology stack across all layers and introduced self-service capabilities, automated some of our front and back-office processes and refreshed our technologies to support the needs of our digital channels.

In line with our digital transformation agenda, we have internally nurtured a digital culture. This necessitated investment into building capabilities for innovation, incubation, experimentation, and development at scale across the Group.

System Fidelity

The need to keep improving on service delivery by providing efficient banking services and processes, is the main aim of KCB in its bid to become a reliable sustainable Bank in the region. Increased digital migration worldwide and the need to meet customer demands have seen KCB leap towards digital transformation. This is set to strengthen the socio-economic wellbeing of our customers.

In 2021, we adopted essential practices in service management, including monitoring and service improvement initiatives. We have been enhancing our systems, and improving the uptime of the core banking system and critical customer-facing channels. This led to over 99.8% availability, enabling more transactions on the digital channels than in previous years.

Customers are now migrating to the self-service systems either on mobile phones or through internet banking as they have proven to be reliable, consistent, and secure. Monitoring the systems helps in accountability for every transaction as service improvement initiatives help keep the system online.

Manufactured and Intellectual Capital

KCB Group's manufactured capital consists of cutting-edge digital systems, tools (procedures and rules), and our operational philosophy, all of which help to speed the flow of knowledge and information both within the Group and to external parties such as suppliers and distribution channels.

These capitals are in the form of leased or totally owned systems and whose value is earned through the delivery of products and services. Our strong distribution network, which includes the region's largest branch network as well as cutting-edge digital platforms, is a key source of competitive difference. KCB Group was able to continue providing services to our clients despite the challenges posed by the COVID-19 pandemic by leveraging its digital platforms, which include mobile, internet, agents, and merchants.

Our clients are aware of and appreciate our organisational efficiency. Hence, efficient operational processes are just as important as innovative products and contact channels.

We remained a top-tier financial institution in the area because of our continued investment in the digital space, providing new solutions, improving ease of access to banking services, and ensuring system availability and reliability. To manage results generated by manufactured capitals we keep optimising our structures, systems, processes, and tools.

Intellectual capital on the other hand, is a collection of factors such as how the brand is regarded, intellectual property, technical know-how, and the ability to be creative and innovative in the delivery of products and technology deployment. As a forward-thinking Bank, we place a high value on intellectual capital to gain a competitive advantage. For the firm to remain adaptable and sustainable, products and services must be reflective of ever-evolving industry practices (technology or otherwise). Furthermore, through rigorous stakeholder engagement, regulatory compliance, and a strategic communications approach, the Group guarantees that its reputation credentials stay strong.

In this regard, the Bank has continued to outperform the market on key intellectual capital metrics. Every year, the Bank's research arm conducts a brand health assessment, identifying top brand drivers and stress spots, as well as specific remedial steps.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

We adopted essential practices in service management, including monitoring and service improvement initiatives. We have been revolutionizing our systems, improving the uptime of the core banking system.

We are also working on ensuring the safety of our systems. We have improved our security and compliance by implementing key security capabilities such as Privileged Access Management. This system helps organisations restrict access within an existing and isolated Active Directory environment. Privileged Access Management re-establishes control over a compromised active Directory environment by maintaining a separate rampant environment that is known to be unaffected by malicious attacks. It also isolates privileged accounts to reduce the risk of those credentials being stolen.

Strategy Review

To optimise our business capabilities to support the business functions to deliver exceptional customer service, we have modernized our technology foundations by increasing the capacity of human technology resources to support the different technology capabilities by supporting various business services.

Training technology resources included agile training for engineers to facilitate the adoption of an agile way of working. With trained personnel on the ground, we stand to give our technology journey an upper hand. For example, Vooma, a self-service platform accessed through mobile devices, is one of the services that have been optimized to deliver exceptional services to customers. It has helped reduce the cumbersome paperwork a customer had to complete to apply for a loan.

KCB commenced the integration of KCB Bank Rwanda with BPR for Business Processing re-engineering and run the two entities as one. Further, KCB has been able to harmonize its IT systems to adopt best software solutions for payroll and loan origination for NBK. Also, the governance process has been harmonized to enable seamless interoperability between the entities.

Cybersecurity remains a more significant concern in the banking sector. To combat cyber security, the Information Security Department is charged with protecting and safeguarding KCB Group's information assets. In 2021, we utilized technology in managing cyber security issues aided by adoption and implementation of key capabilities such as regular security reviews for vulnerabilities followed by timely resolution of any critical vulnerabilities identified, raising security awareness, training, and sensitization of employees on the threats to cyber security and 24/7 monitoring of the KCB group systems and infrastructure.

Training technology resources included agile training to IT engineers to facilitate the adoption of the agile way of working. With trained personnel on the ground, we stand to give our technology journey an upper hand.

To ensure increased safety of our systems, we had an upgrade last year. This has yielded significant results especially so because of the deployment of the Oracle Hyperconverged infrastructure to run the core banking database. The upgrade entailed a network upgrade and storage refresh. This led to hardware savings and reduced capital expenditures, and increased bandwidth at a lower cost, especially for the wide-area network.

It also provided a central point of control to consistently distribute security and policy information throughout the enterprise consistently. This increases the system functionality, creating efficiency and it provides a central point of control to distribute security and policy information consistently throughout the enterprise.

Branch Excellence Model

Our customer-facing staff have enhanced relationships with our clients through the Branch Excellence Model to support and meet their needs.

This has resulted in tremendous growth on the loan book, which is a key focus area and the drives support for the MSME customer segments.

Strategy Review

This model also enabled improved turnaround time (TAT) and improved reliability. This has seen us attract new customers who enjoy the shorter TAT and reliable means and convenience together with the rest of the KCB customer base.

Our channels provide a simple way to access banking any time without incurring additional cost. They also facilitate the transfer of money enable payments to various merchants and provide access to digital money. The net impact of all these investments has been an increase in the number of bank accounts opened through agents (strategically focused on institutions, disciplined forces, and schools).

The introduction of Vooma has also been foundational in recruiting over 30,000 agents enabled by the reduced requirements for onboarding. As we grow our digital platforms, we also deploy and continuously upgrade best-in-class cyber security mechanisms to defend our assets at all times.

Shared Services

In 2021, while continuing with several ongoing initiatives, we took steps to ensure that we were fully prepared for the pandemic's changes and generally improved our efficiency as a group. We restructured several departments and created an operating model for the group entities, which also takes care of any new acquisition proposition.

This gave birth to the Group Structure and subsequent appointment of Group Shared Service Director. The journey to bring to life a true shared service commenced. A world-class Target Operating Model was designed to have one group vision and operating model.

This process was anchored on automating the key process to maximize the efficiency and productivity of select functions and processes. Automating these key processes has led to 131% reduction of fraud and improved operation transactions in reconciliation and compliance by 93%.

Process automation and system integrations have resulted in greater efficiencies within the Bank. Case in point was the integration of quick pay and Business Process Management (BPM) which led to turnaround time for salary processing improving by 96% — from 48 hours to less than 2 hours — hand-offs in process reduced by 60% eliminating manual capture of instructions at our transaction processing center, reduced errors in payment files in branches, improved AML Compliance, and integrated the digitised workflow from BPM to Swift, among others.

In 2021, the Bank launched the code of conduct for its suppliers to align with global best supply chain practices, bring to life matters of ethics and compliance, and align with the overall KCB corporate sustainability strategy.

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44.0%

Cost to income ratio

To expand access to finance for customers with disabilities, the Bank has continued to implement a raft of initiatives to improve the accessibility of our KCB outlets. Today, all the Bank premises have been designed with provisions to accommodate people living with disability and in line with the Persons with Disabilities Act of 2003.

Such provisions include designated parking slots, design of premises to have suitable access ramps for people with disability, provision of braille symbols and auditory signals in elevators and lifts, and provision of suitable washrooms for disabled persons.

Outlook

The goal for 2022 is to increase efficiencies, replicate best practices across the Group, track and monitor progress, and embed a customer-centric culture and strive to provide the best customer experience and drive a digital future.

As we forge ahead amidst the challenges and hiccups experienced over the past year, our goal is to support expected transaction growth and ensure system availability. Additionally, we will revamp existing internet banking and mobile banking solutions by enabling scalability and high availability to support transactions growth in line with the Beyond Banking strategy.

One key area we look to focus on is developing various skills and capacity to deploy critical technology systems and capabilities such as container platform, microservices architectures, kubernetes among others. We are also enhancing the core banking system by upgrading T24 from R14 to R21. We aspire to make more technological advances to enhance our efficiency, meet customers' needs, and maximize the new technological inventions that aim to keep increasing serviceability.

Our channels provide a simple way to access banking any time without incurring more cost and facilitate the transfer of money, payments to various merchants and access to digital money.

Strategy Review

Our Brand Value

In line with the quest to become a regional powerhouse, we reckon that a clear brand identity is imperative for any business. We have existed for over a century and have managed to maintain our brand as we create value within the communities we serve.

In 2021, we made strategic investments to improve our brand value through stakeholder engagements, sponsorship of different initiatives and thought leadership despite the particularly challenging operating environment brought about by the pandemic.

We have remained committed to the fight to curb the effects of the COVID-19 pandemic internally and externally through different initiatives to support employees, customers, communities and other stakeholders. As we journey through the pandemic, we will continue to provide opportunities and solutions for our stakeholders, to ensure that we all come out strong.

In 2021, the Bank launched the code of conduct for its suppliers to align with global best supply chain practices, bring to life matters of ethics and compliance, and align with the overall KCB corporate sustainability strategy.

Our sports sponsorships have also been a critical area of growth for us in the past year. Coming from a season of lockdowns, which had us stop all sporting activities, 2021 was filled with excitement driven by the resumption of these engagements. KCB sponsored and contributed to numerous events across the country encompassing art, culture, sports, CSR initiatives, among others. We believe that sports play an integral role in shaping the minds and health of our youth, and the Bank has been diversifying its efforts to support athletes and our region's future stars.

A key highlight in sports was our KShs. 100 million sponsorship of the World Rally Championship (WRC) held in Naivasha, Kenya, after a 19-year absence. The event was a success and was a huge boost to the tourism and hospitality sector, which were the biggest beneficiaries of the event. KCB

was instrumental in reinstating Kenya into WRC and has over the past 19 years invested over KShs.1.2 billion towards supporting motorsports — largely rallies and autocross circuits — and the investment paid off. We take pleasure in knowing that our sponsorship has sustained motorsport and helped build a critical mass of talent competing in local and international platforms.

We believe the event was a great opportunity to demonstrate Kenya's growing credentials as a global sports powerhouse while encouraging young people to participate and nurture their talent. The event not only positioned Kenya but Africa as a global sporting destination for international activities. The Safari Rally has a strong heritage in Kenya. The event attracted thousands of excited spectators and it was great being involved in the process of bringing back such a legendary event which boosted our brand love. Kenya is now back on the event's calendar for the next 5 years.

We also sponsored key golf, football, volleyball, chess games and autocross championship, which positively enhanced our brand positioning given the different demographic that these activities target. Our commitment is to continue partnering in more sports initiatives across the region.

We take pride in having consistently been ranked amongst the leading financial institutions in the continent based on financial performance, customer service, Sustainability and ESG among other parameters. In 2021, we received over 15 accolades from different local and international organisations, which go a long way in cementing our leadership position and affirming our resolve to deliver the very best in customer experience and drive a digital future.

In 2021, our corporate communications stance continued to promote KCB Group as a best-in-class financial solutions provider in the region, showcasing additional areas of strength, including digital banking, sustainability, and citizenship agenda. Specific efforts highlighting KCB Group's commitment on these fronts led to the global recognition of the Bank's achievements and leadership in these areas. In addition,

A key highlight in sports was our KShs. 100 million sponsorship of the World Rally Championship (WRC) held in Naivasha, Kenya, after a 19-year absence.

it reinforced KCB's presence as the leading financial services supporter of East Africa's economic progress with our senior management being featured in prominent news media such as the Bloomberg, Reuters, The Banker, CNN, CNBC Africa, and Africa Report among others.

The Bank also continued to broaden its audience by engaging customers and stakeholders over social media. This did not only reduce our cost per reach and maximize return without increasing budgets, but also boosted our engagements efforts as a number of people were working from home.

Through our corporate social responsibility arm, the KCB Foundation, we have continued to empower the youth through our 2jiajiri programme, by training and providing financial support. This has enabled them to start their businesses and create employment in different fields. Our goal is to empower the youth and create employment for them in all the areas we operate in. We are delighted that the Igire job creation programme in Rwanda is taking shape and positively impacting Rwandans' lives and growing their economy.

In line with the need for the Group to remain relevant and responsive, we implemented a new Group structure which saw Marketing, Corporate Affairs and Citizenship units merged into one Division to provide strategic support to all our subsidiaries in this new dispensation. The new structure is expected to harmonize all the three functions and drive the Group forward with a focus of enhancing brand love, affinity and customer loyalty. This will be attained through a series of brand programmes, internal communication, public affairs stakeholder engagements and community investment programmes.

The Citizenship pillar will take the lead to amplify, contextualize and mainstream the financial, economic, social and environmental strategic goals to drive thought leadership and brand love. Subsequently Corporate Affairs and Marketing roles will focus on enhancing the brand, build trust, deploy strategic communication for digital, print and visual, implement stakeholder engagements, address concerns and feedback.

Going forward into 2022, we are looking to refresh the KCB brand to reflect the realities of today and tomorrow, focusing more on the MSMEs proposition, development of best-in-class standards, integrating shared value for community initiatives and internalizing green lending and climate change risks and opportunities to build the KCB Group as a regional powerhouse.

Specific efforts highlighting KCB Group's commitment on these fronts led to global recognition of the Bank's achievements and leadership in these areas. In addition, it reinforced KCB Bank's presence as the leading financial services supporter of East Africa's economic progress with our senior management being featured in prominent news media.

Strategy Review

Our People

Employee Wellness

The past two years have been marked by uncertainties due to the COVID-19 pandemic. This resulted in a paradigm shift in our operations as we continue supporting our customers while delivering to our shareholders. To keep infections at bay and combat the spread of the virus, KCB took up various crucial initiatives for the safety and wellbeing of our staff. At the same time, we facilitated access to vaccines for our employees with up to 98% receiving it.

Our people's wellbeing is at the heart of our sustainability plan, not only as a driver of growth but also as a crucial component of any sustainable business and society. We continue to curate best practices and promote a sustainable ecosystem at work and in the community as the COVID-19 pandemic evolves.

In 2021, we continued to support our employees adapt to the new normal workplace, enabling them to overcome obstacles and achieve their professional and personal objectives. Everything we did, from implementing the Group's Standard Operating Procedures and directives to curating a diverse and holistic learning and development, engagement, and wellbeing initiative, was focused on providing valuable opportunities for our employees while ensuring business continuity to sustain the Group's strong performance. All employees are also encouraged to take their annual leave from work to rejuvenate and build a healthy work-life balance with staff taking an average of 25 days in 2021.

Effective management of COVID-19 and ensuring employees' health and safety was at the forefront of our interventions for our staff. We ensured that sitting arrangements met the social distancing requirement, provided counselling services to employees, and enforced COVID-19 containment measures across all our premises. To ensure holistic wellbeing of staff during this challenging time, we provided counselling and psychiatric services to all employees and ran training programmes for financial wellness.

Talent Attraction and Development

The Group aspires to be an employer of choice and work to attract, retain and build our employees' strengths and capabilities. Our learning and development stance is based on business outcomes and guided by our strategic objectives. It guides the Group in investing in employee learning and development to build and enhance technical and leadership competencies in a manner that enables the Group to attain its strategy and plans whilst supporting employees to attain their career goals and aspirations.

Our talent management policy defines the Group's framework for talent management to support the attainment of the Group's strategy, vision, and mission. It also ensures that the Group attracts, nurtures, retains, develops, and deploys high performing and committed talent to enable it to achieve its strategic objectives.

Human Capital

Human capital is a significant component of the Group's strategy and a key differentiator. To enable us to execute our strategy, we have a team of 8,538 people from all backgrounds and countries serving our customers across the Group. We invest in human resource development on a regular basis, including training, employee wellness, employee appreciation, competitive salaries, and career promotion.

Talent attraction, retention, motivation, and development, as well as innovation that aspires to provide a gratifying experience for our staff, continue to drive our transformational strategy. The most significant ingredient in generating exceptional results from all other capitals remains our people, who carry the Group's mission. Our industry reputation and track record of great performance contribute to the Group's capacity to attract personnel from the market.

Our employee compensation and benefit plans are continually benchmarked to ensure that we remain competitive in the market.

In 2021, the Group instituted and implemented a succession planning process that enables us to empirically identify the top talent in the Group. The Group identifies critical roles through an annual process. These roles then form the focus of succession planning, to ensure we are future-proofed. We have identified a talent pool for 2021 through an elaborate process of various assessments guided by the competencies that are required to deliver on the Group Strategy in a competitive and digitally driven economic environment within which the Group operates.

Following the assessments, an eight-month development programme was designed to close the developmental gaps identified and ensure that members of the talent pool are ready for succession as and when required. The programme includes practicums and other interventions to hone their leadership capability.

The talent pool being a microcosm of the leadership cadre of KCB provides insights on developmental interventions that need to be addressed at all leadership levels to ensure a leadership skill continuum across the board by creating a build on approach of leadership capability building.

During the year under review, we had 454 people promoted internally. Out of these, 41% were female. In addition, over 40 senior managers from across the Group volunteered and were trained as coaches to coach colleagues. Staff members have been supported to become better managers of their resources with over 900 men attending a Men and Money conference while over 1,200 ladies attended a Women and Money conference.

Measuring Organisation Health

In 2021, the Group conducted an Organisational Health Index (OHI) survey — an exhaustive assessment of an organisation's effectiveness and its management's performance based on an company-wide survey — to identify employees' key concerns and benchmark the Bank's health, align around core areas of improvement, and improve overall organisational performance.

Following the survey, areas of concern that would impact attraction and retention of talent were identified and addressed both at the grassroots level in the branches and from an organisation-wide level.

The aim is to ensure that the changing expectations of employees are matched by well-regulated and updated employee life cycle management processes – performance management, talent development, employee relations and the employee benefits scheme.

The OHI survey was conducted in November and returned a score of 79 placing KCB among the top decile of the global McKinsey database, up from 70 in 2019. KCB has been using OHI since 2019, with positive results both in organisation health and performance. The assessment affirmed that KCB is a healthy organisation, with strong results across almost all subsidiaries.

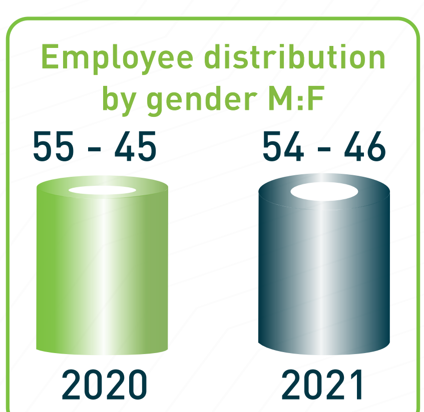
Diversity and Inclusion

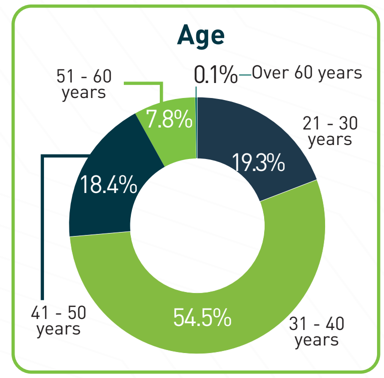
The Group has a drive to ensure diversity and inclusion by focusing on targeted recruitment with a deliberate focus on hiring based on diversity and inclusion. The Group is deliberately focusing on providing opportunities to marginalized groups to ensure that our workforce reflects the communities and countries where we operate in.

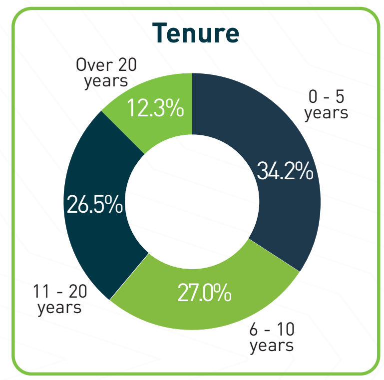
Our diversity and inclusion policy guides our organisation to create and sustain an environment that attracts and retains the best diverse talent in a manner that increases productivity by fully engaging every employee and earning the Group the mandate to operate and grow.

Through it, we ensure that we create and sustain an environment that is based on merit, equality and inclusion to attract and retain diverse talent, where each employee can develop to their full potential irrespective of their race, ethnicity, gender, marital status, age, disability, religious belief and personal political affiliation.

We have made significant progress across board. As at the end of 2021, female employees accounted for 46% of our total headcount and 42% of all managers. We believe we can still do more to get closer to a 50% split in total headcount as well as in senior management roles. During the year, female employees accounted for 25% of senior roles. To improve this, we are rolling out targeted training programmes for women staff under the women in leadership and aspire programmes.







Employee Remuneration and Reward

The Group staff remuneration policy guides us to compete effectively in the labour market and to recruit and retain high calibre employees; to maintain fairness and equity in employee remuneration and reward; motivate high levels of employee performance; and ensure that remuneration is managed in an affordable and sustainable manner.

The Group seeks to remunerate its staff members in a manner that supports the achievement of the vision, mission and strategic objectives whilst attracting and retaining scarce skills and motivating high levels of performance. We also ensure fairness in our remuneration across diversity lines. We do not have a gender pay gap and we advocate for equal pay for equal work.

Besides offering competitive remuneration, the Group also offers additional benefit packages and supports work-life balance by providing a medical cover, paid maternal and paternal leave among other benefits. In 2021, 144 and 239 staff went on maternal and paternal leave respectively.

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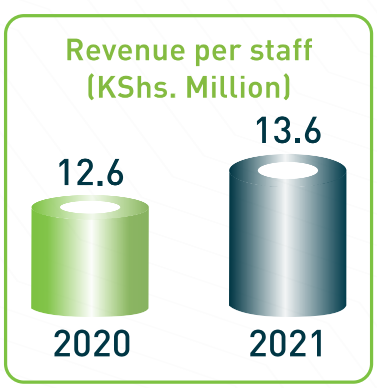
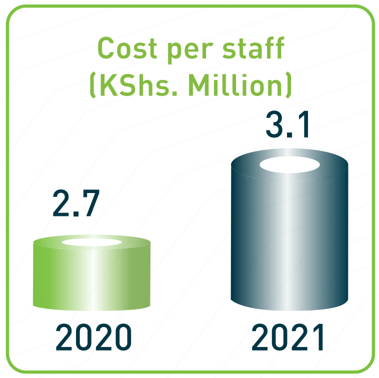
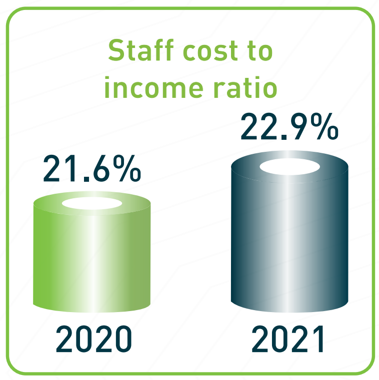
The Group also rewards its employees for their exemplary performance in annually fulfilling set business and individual targets through consideration and payment of bonuses annually, subject to the provisions of the performance bonus policy.

Through our recognition policy, we acknowledge employees for their valuable contributions and achievements, and for excelling in living the KCB Way and supporting the Group in delivering superior business performance. We are committed to delivering shareholders value, customer and employee engagement through staff who demonstrate and live the corporate values.

It is our intention to create an engaged working environment where we celebrate our people by recognising outstanding work, accomplishments, and contributions to the Group. Our Simba Awards programme has been instrumental in this regard. Due to pandemic-induced disruptions, we were unable to hold the award ceremony in 2020. However, in 2021, we amalgamated both editions with staff nominations covering both 2020 and 2021. The participation of staff was commendable with 683 nominations from which winners were selected for country awards in November 2021. The country award winners qualified to participate in Group Awards held in April 2022.



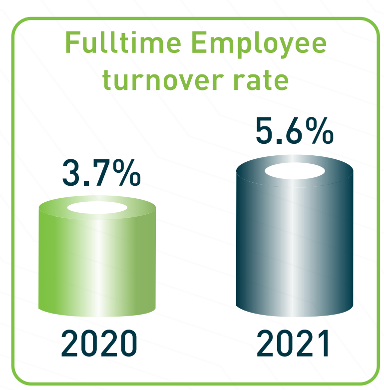




Onboarding and Separation

Through the Group induction and orientation policy, we ensure that newly recruited employees are seamlessly onboarded into the Group to drive high levels of performance from the onset and support the attainment of the Group's strategy. We ensure that all new employees understand the strategy, vision, culture, and values of the Group and are sufficiently informed to enable them to take the shortest time possible to become effective in their role. We recognize that the Group shall become an employer of choice by ensuring new employees feel welcomed, valued, and assimilated into the organisation.

We also ensure through our Group staff pension and separation benefits policy that we assist our employees to have an income after their retirement, or after separation from employment in a manner that is sustainable and aligned to the Group's strategy and business plans. This policy provides the overall framework and methodology in respect to the Group's management of the selected pension, provident fund schemes and separation benefits. We also provide training for our employees in financial management as they near their retirement ages to ensure that they lead fulfilling lives in their sunset years.



Strategy Review

03 Digital leader & digital to the core

Technology has changed how people interact with businesses, making information more easily accessible, activities more visible, and processes more efficient. Over the years, the Group has invested and made deliberate efforts to digitise our processes and drive the deepening of digital channels to tap on the capabilities that these channels offer in driving efficiency and ensuring financial access and inclusion.

These efforts have seen us enhance our non-branch platforms to provide round the clock service to our customers. Our investments have continued to deliver returns through enhanced customer satisfaction and efficiencies in our touch points. The Bank's efforts to drive the usage of our digital self-serve channels namely mobile, agency, internet banking and ATMs saw 98% of our transactions conducted outside our branch network.

Mobile banking leads the pack and has continued to open the banking space. Through this channel, we are able to efficiently serve our existing customers and attract new to bank clients through innovative and affordable products. The public safety measures introduced at the onset of the pandemic further accelerated the uptake of mobile banking across our market. This impetus coupled with rollout of additional products on mobile such as Western Union funds transfer, gave the channel a three-year leap in usage among customers. The number of transactions grew by 53% to a record 400 million, making it the most preferred touch point with over a million transactions conducted daily. Over this period, for every five transactions conducted across our network, four were on mobile. Volumes moved on mobile also recorded a 39% growth during the year to KShs. 2.1 trillion, crossing the two trillion mark for the first time.

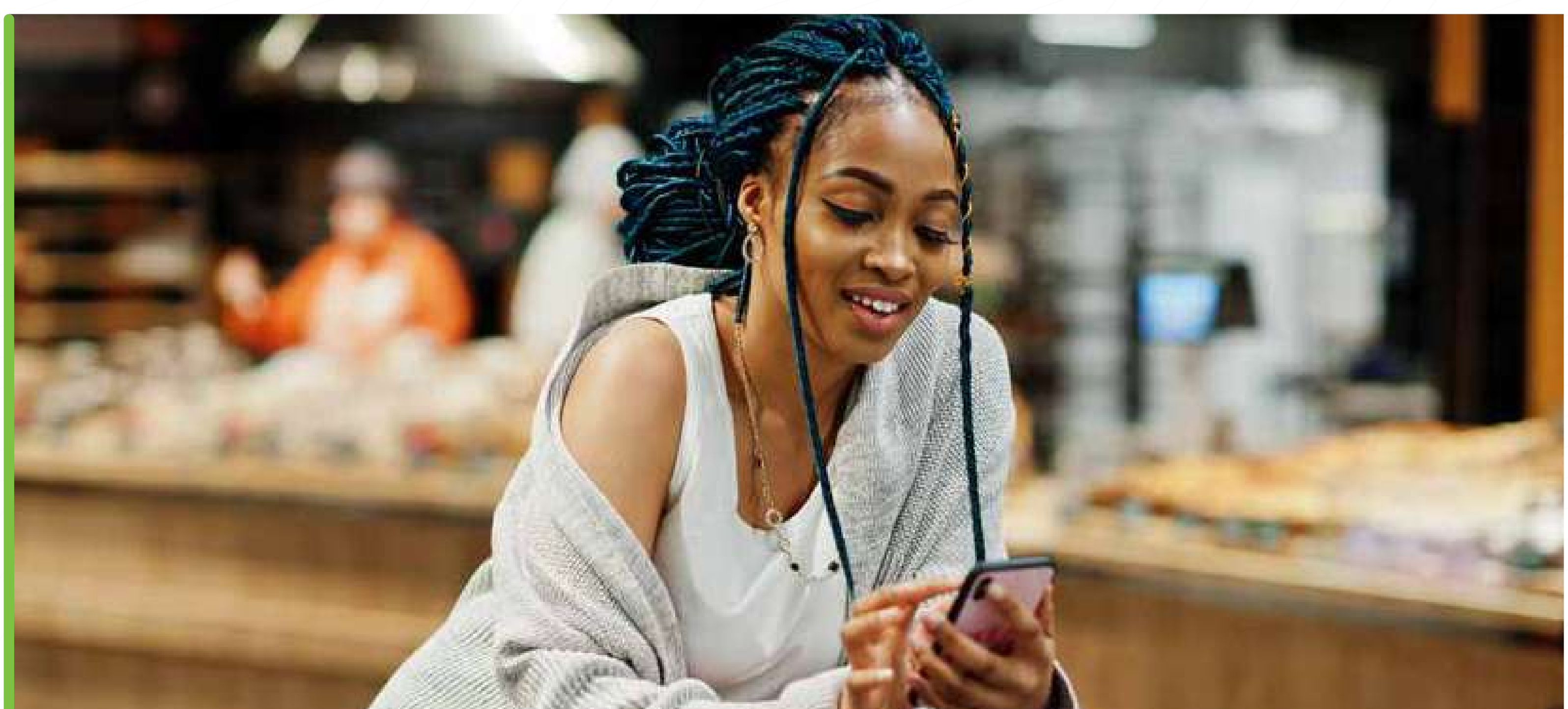
Mobile lending also continued to recover during the year albeit a slower pace weighed down by the introduction of excise duty on mobile loans which affected affordability for some customers. Before the pandemic hit, our cumulative mobile loan disbursements had grown to KShs. 212 billion in 2019. In 2020, this reduced to KShs. 154 billion because of the effects of the pandemic on businesses and the economy. With the recovery recorded in 2021, we set out to increase the support that mobile lending provides especially to micro enterprises who rely on these loans for working capital. To ensure a balanced recovery, we enhanced limits for qualifying customers, rescored the KCB Mpesa base and introduced top ups, rollovers, and

KShs. 2.1 Trillion

Total value of mobile transactions in 2021

extensions for distressed borrowers. These saw a 2% growth in mobile loans advanced during the year to KShs. 158 billion. Fuliza recorded a 32% growth to KShs. 96 billion with a further KShs. 45 billion and KShs. 16 billion being advanced through KCB Mpesa and Vooma loan respectively.

Asset quality on mobile has historically been a challenge across the industry. To guard against the deterioration of our book, we tapped on data analytics to ensure that we only prudently enhance limits for the strongest customers and exercise caution in how we expand our book. This led to a reduction in our cost of risk to 50 basis points down from 200 basis points in 2020.



Strategy Review

2021 marked a decade of agency banking for KCB. Over the years, we have grown our network to over 16,400 agents across the region bringing banking services to the customers' doorstep. During the year, we made strides in enhancing the offering across this key network. To reduce the need for customers to visit our physical branches, we rolled out International Money Transfer (IMT) services, government statutory payments and global utility collections to bank agents. This coupled with continued growth in usage of the services available via the agents led to a 23% growth in number of transactions processed in 2021 to 57 million with a value of KShs. 598 billion. During the year, we also witnessed an increase in the number of accounts opened through agencies strategically focused on institutions, disciplined forces, and schools.

The ATM network also continued to entrench its position as a strong deposit collection touch point having become a net deposit mobilizer in 2020. In 2021, the value of deposits collected through the channel doubled to KShs. 251 billion. This represents 69% of all volumes transacted through ATMs, up from 52% in 2020. Moreover, buoyed by a resurgence in economic activities, POS transactions recorded a 59% growth in transactions to 13 million with the volumes growing by 59% to KShs. 68 billion. This resulted in a 56% growth in revenues to KShs. 1.1 billion.

To drive innovation and usage of our internet banking (iBank) solution, KCB became the first bank in the Kenyan market to launch a mobile application for internet banking to complement the web access. Studies have shown that mobile devices are the predominant touchpoint when it comes to internet banking. Therefore, this innovation is a gamechanger in the banking industry in Kenya and will meet our customers demand for extra levels of convenience as well as extending client reach, improve customer retention, achieve operational efficiency, increase market share as well as increase product usage. The solution is accessible to all our customers across the retail and corporate segments. Internet banking has been growing tremendously in the past few years. In 2021, the number of transactions conducted on the platform grew by 85% to 5.5 million. The value of these transactions grew by 58% to KShs. 847 billion netting a 63% growth in revenues to KShs. 336 million.

During the year, we drove growth of digital channels by building ecosystems that allowed product innovation and maintained business flows within the Group while developing capabilities to provide financial services. Investments in the mobile platform continue to bear considerable returns, even with the fee waiver mandated in 2020 by the Central Bank of Kenya (CBK) with the aim of providing relief to consumers. Although this waiver led to a 14% decline in gross mobile revenue to KShs. 6.7 billion, it led to intrinsic benefits in driving utilisation of digital platforms.

Across the region, we see similar growth patterns witnessed in Kenya in the utilisation of mobile banking products. We have launched several exciting products like working capital lending in Uganda for bank agents. We are looking at ways to replicate some of the services we see working well in some territories to all our customers in our other markets.

One of the biggest challenges we faced during the year was migration from our old mobile banking platform to the new one. We experienced some hitches in the system, which caused some discomfort for our customers for a few weeks. This impacted our services in April and early May. It was a painful time for us, even as we worked tirelessly to remedy the situation as fast as possible.

Vooma is our robust, exciting, and dynamic mobile wallet that allows customers to pay for goods and services, get loans and save money via their mobile phones on any network. The platform has a capacity of over 2,000 transactions per second and houses all mobile lending, savings and payment products for KCB.

Since the launch of the service in March 2020, we are inching closer to having a million customers on the platform, with 760,000 wallets as at the end of 2021. The platform is gaining traction in the market with the recruitment of customers and the expansion of its agency and merchant's network through various partnerships. As a result, we have made solid gains with the recruitment of over 300,000 merchants and 46,000 agents. Moreover, in readiness for a communication campaign in 2022 to accelerate market access and customer acquisition, we have branded over 10,000 agents and expanded the partner base to increase the options for customers to load or withdraw funds and make payments.

In 2021, we also increased our efforts to give our customers pleasant and seamless services by leveraging key transformative partnerships. These include partnerships with fintechs who help us build products, corporates for payments collection, and aggregators who take us to the market. We are currently working with over 150 partners across various fronts.

Focus areas in 2022

In 2022, we will focus on executing our Digital Financial Services (DFS) strategy, where we will position DFS as a platform to digitise the core business and build new revenue streams. We will seek to digitise some of the banking services that are still manual such as trade finance applications to make it easier for customers to access them.

We will also build a distribution network and grow partner ecosystems by onboarding aggregators and fintechs, as we leverage on our strong customer base to provide foundational growth.

To achieve this, we will launch a customer-first campaign, fast track resolution of recurring customer complaints, digitise customer onboarding processes and customer self-serve solutions, in order to migrate customers to digital platforms, and ensure that our systems are up and running all the time.

We project 2022 to be a bumper year for many innovations, with the rolling out of more digital products.

Deepening of mobile banking

Volumes of mobile transactions

KShs **2.1** trillion
39% year on year growth

Number of mobile banking transactions in 2021

400 million transactions
53% year on year growth

Deposits collected on mobile

KShs. **740** billion
57% year on year growth
1.6x the value of withdrawals on mobile

Volumes per product

Fuliza: KShs. **96** billion
KCB Mpesa: KShs. **45** billion
Vooma Loan: KShs. **16** billion

Average mobile loan ticket size

Fuliza: KShs. **375**
KCB Mpesa: KShs. **8,434**
Vooma Loan: KShs. **21,114**

Number of mobile loans In 2021

280 million
766,000 per day
32,000 per hour
530 per minute
9 per second

Value of mobile loans advanced in 2021

KShs. **157.6** billion
KShs. **432** million per day
KShs. **18** million per hour
KShs. **300,000** per minute
KShs. **5,000** per second

Strategy Review

04 Scale to Achieve Regional Relevance

At KCB Group, our vision is to be the preferred financial solutions provider in Africa with global reach. This ambition, which is core to our business, fueled our ambition to deepen our footprint in the region with banking subsidiaries in Tanzania, South Sudan, Uganda, Rwanda, Burundi, and a representative office in Ethiopia. As a leading bank in East Africa, we have a responsibility to the communities we serve to drive financial inclusion and offer opportunities that enable society to build strong economies.

Financial Capital

The Group maintains an optimal amount of capital to support our growth goals, drive investment opportunities, and meet regulatory needs. To manage our operations and implement our goals in 2021, we used a balanced mix of customer deposits, debt, and equity. Despite the turmoil of the year, the Group maintained a strong capital base and varied funding sources, allowing us to offer competitive banking solutions across all our markets.

Our investors, both debt and equity, played a big part in the makeup of our financial capital and the operationalization of our strategy. Additionally, our retained earnings form part of the financial capital used in the execution and growth of our strategic investments. Higher bank capital contributes to financial stability by providing a buffer for absorbing losses during a crisis or other bank problems; it may improve bank screening and supervision; and, because shareholders have more skin in the game, it tends to reduce risk-taking.

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We believe that we need to build a scale to match the meaningful role that we aim to play in the region. Our region is home to three of the top ten largest economies in Africa — Kenya, Ethiopia, and Tanzania — and some of the fastest growing economies such as Rwanda and South Sudan. To outpace this fast growth and meet the demands of the markets we operate in, we constantly seek ways to scale our operations both in our lead market in Kenya as well as across the region. Guided by our Beyond Banking strategy, we are actively leveraging both organic and inorganic growth strategies to increase our existing subsidiaries' market share to entrench our position as a top tier lender.

In 2021, all our subsidiaries were profitable. KCB Bank Kenya led the pack with a 72% growth in profit before tax (PBT) to KShs. 40.5 billion. NBK posted the fastest organic growth with 330% increase in PBT. Organic growth across the Group availed KShs. 21.6 billion in PBT growth with an additional KShs. 477 million from acquisition activities.

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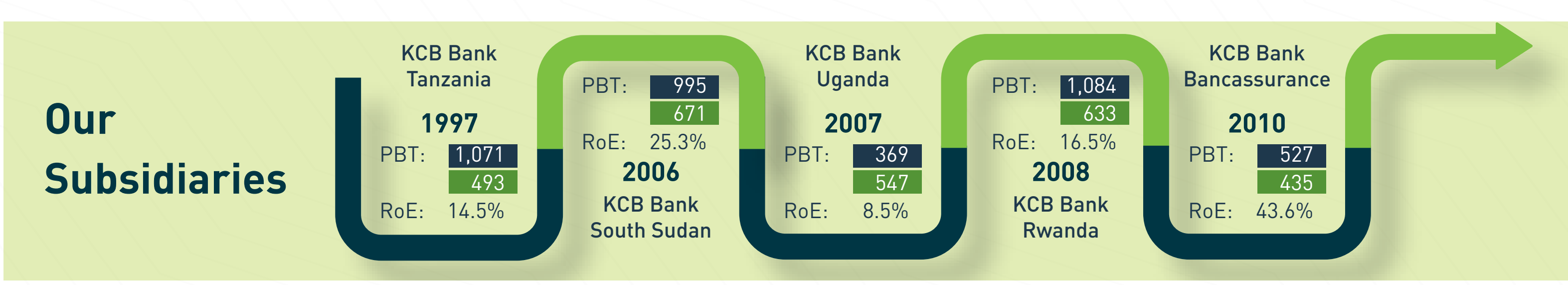
We note that even as KCB Bank Kenya grows, we need to grow our other subsidiaries at a much faster pace to boost their contribution. To achieve this, we continue to leverage on synergies that exists across the Group to drive their growth. Our structure — supported by the creation of the Group Regional Businesses office, with a senior executive to oversee this strategy — provides a conducive environment for innovation and sharing of best practices across the region to ensure collective growth while paying close attention to our international businesses. In 2021, our subsidiaries outside of KCB Bank Kenya collectively contributed 14% to the Group's profit before tax. PBT from these subsidiaries grew by 62%. This gives us the impetus to steer their performance towards the targeted 20% contribution by 2023.

We also registered an impressive balance sheet growth across all our businesses collectively leading to a 15% increase in



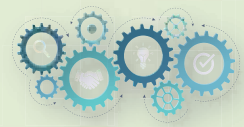
Strengths that make East Africa an attractive place to expand

1 Immense potential for banking opportunities.

Low levels of banking penetration make it conducive for digital financial products to drive financial access and inclusion.

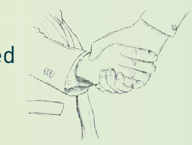
2 Expansion of the East African Community with the admission of the Democratic Republic of Congo as the seventh member state.

- Admission ushers in massive trade opportunities through removal of trade barriers and free movement of persons and goods.
- DRC's admission widens the common market from the current population of 193 million to 275 million. DRC represents 30% by population and 50% by land size.
- DRC borders five of the EAC States -Tanzania, Burundi, Rwanda, Uganda and South Sudan- and uses Kenya's ports for most of its imports.
- KCB currently has a presence in all the EAC states facilitating seamless trade across the region.



3 Improvement in business environment

Peace, stability, and reforms aimed at strengthening governance and improving the business climate initiated across the region.



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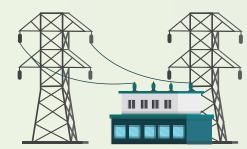
The region is endowed with exceptional natural resources, including minerals such as cobalt and copper, hydropower potential, significant arable land, immense biodiversity. Utilization of these resources will power an average annual GDP growth of 6% across the region in the medium term.



total assets to KShs. 1.14 trillion, crossing the trillion shillings mark for the first time in our 125 year history. KCB Bank Kenya represents the bulk of these assets with 73%, with the remainder spread across our other regional businesses which have grown from a contribution of 23% in 2020.

To accelerate our growth in the region's fastest growing economy, Rwanda, we concluded the acquisition of Banque Populaire du Rwanda (BPR) in August 2021. BPR Bank is the second largest bank in Rwanda and it plays a critical role in supporting the economy to drive financial inclusion in the country by focusing on inclusive growth, equality, economic opportunities, money management, investment initiatives, raising the standard of living, and poverty reduction.

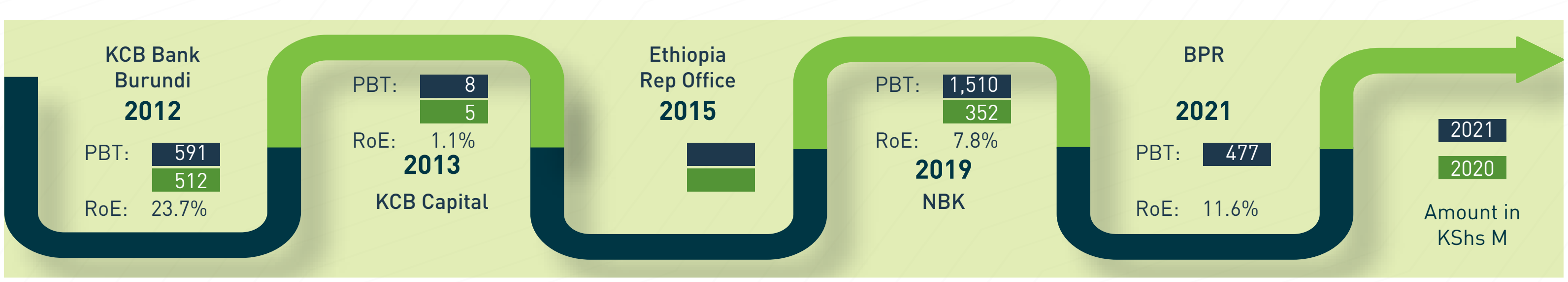
We have since completed the process of amalgamating BPR and KCB Bank Rwanda to form BPR Bank Rwanda Plc which shall be our brand in the Rwandan Market. This acquisition which fits well with our strategy catapulted our size in Rwanda to the second largest bank in the country with a market share of 17%. We are optimistic about what the future holds in this market, and we look forward to contributing to the country's growth. We believe that our combined scale and resources mean we can simplify and improve the lives of more customers in the region.

Since our National Bank of Kenya (NBK) acquisition in 2019, the lender has been reporting tremendous growth. The Bank posted 330% growth in PBT in 2021 driven by improved revenues as a result of increased lending supported by capitalization by the Group to support lending and growth. During the year, we continued to integrate some of its back-office services with KCB Bank Kenya resulting in improved efficiencies and cost containment. We have also harmonized IT systems to adopt best of breed software solution for the entities such as payroll and loan origination.

The NPL ratio which was a significant pain point at acquisition also came down to 31.6% down 1,220 basis points from when we made the acquisition. We look forward to a strong 2022 for the lender supported by innovative products to drive customer acquisition, increased lending especially to MSMEs and improved efficiencies in its operations.

KCB Bank Burundi celebrates its 10th anniversary in 2022. This is an opportunity to build on our lessons from the decade to increase our play in the country by providing our customers with innovative and bespoke products and solutions that are driven by technology. For the next decade, our ambition is to continue growing and unlocking the potential in Burundi. We intend to grow our branch footprint and profitability; partner with government and corporates to drive business; increase product offerings to serve the market better starting with mortgage and insurance premium financing and enhance digital services through technology partnerships.

In Tanzania, we ended our pursuit to acquire BancABC following failure to receive certain regulatory approvals within the prescribed timeframe specified in the agreement. However, we will continue to explore opportunities in the market in the medium term even as we continue to steer the Bank's organic growth.



Strategy Review

Sustained Growth in our Bancassurance Business

Our bancassurance business registered strong growth during the year supported by the launch of new products and improved customer excellence. The improvement in customer excellence saw our bancassurance unit's net promoter score grow to 53 from 45 in 2020 with the customer effort score remaining at a low of 15% supported by the ease by which customers accessed and purchased our products, issues were resolved and, requests were fulfilled.

To develop products that addressed the needs of the previously underserved segments especially in health, we partnered to launch two medical products — Simba Junior and Simba Senior — to cater to the different customer segments with significant interest witnessed in the market. We also entered into strategic partnerships to drive insurance penetration in the micro businesses sector and the agribusiness value chain.

We enhanced collaboration with the branch channels which delivered strong insurance sales from bankers, relationship managers and sales staff. Bancassurance is represented across the retail network by having dedicated bancassurance staff in the branch. We also have a presence in the corporate bank to serve our corporate customers. The collaboration with the branch network gives our insurance partners over 200 service points. In some locations, like the previously marginalized areas of the country, this gives us a distinct advantage as we are the only insurance industry representatives in these locations.

Moreover, we improved propositions to, and engagement with the corporate customer base to grow premium uptake in this segment.

Lastly, we worked with a lean partnership base centering on service and organisation culture alignment that optimized returns for our insurance service partners and for us. These initiatives coupled with proper management of the renewals process helped sustain the growth momentum and resulted in a 29% growth in gross premiums to KShs. 3.2 billion, comfortably above the 20% average growth in the industry.

We also instituted key controls in place for revenue assurance leading to an improved premiums collection rate of 96%. At the same time, we improved staff productivity and business channel optimization leading to a 10% growth in our revenues to KShs. 829 million during the year. This saw our profit before tax grow 21% to KShs. 526 million underpinned by prudent management of costs and minimal provisions.

We see growth in various sectors of the economy especially the medical market segment as well as the re-opening of the hospitality industry. In 2021, we banked on the re-opening of schools as an opportunity especially in the motor business where most school buses had been grounded. We expect an increase in the uptake of life insurance and savings linked products as the economy improves. Medical insurance policies are increasingly becoming top priorities for customers. The revival of the SME sector presents opportunities to drive an uptake in the segment, which will be helped by the increased focus on the segment by the Group. With the reopening of the economy, the transport sector is thriving again and the motor insurance business, previously on a decline mode is now experiencing an upsurge.

On the regulatory front, the long awaited Bancassurance regulations have been implemented with a change in the name of the entity to KCB Bancassurance Intermediary signifying the elevated role the regulator places on bank linked insurance intermediation roles. The industry also faced new challenges from increased regulations on medical products from the impact of COVID-19 among other market developments which we successfully navigated. Furthermore, the industry faced widespread restructuring of products with reduced benefits and increased restrictions which require customers to take up more insurance policies to cover the same risks previously covered under one policy.

In 2022 we plan to continue optimization of the retail network through our branch outlets to serve all insurance customers across the various segments from MSME to individual customers. We are also looking to launch our upgraded core insurance system and leverage on the use of digital channels to increase efficiency and access to the products. We will further seek to enhance our relationship with key partners to develop and enhance products in the underserved segments of the market including the agriculture sector and the MSME to deepen insurance penetration. Our objective is to onboard 50,000 new policyholders in the next five years to help improve life insurance penetration in the country.

KShs. 3.2 Billion

Gross Premiums in 2021, up 29%

KShs. 829 Million

Revenues in 2021, up 10%

KShs. 526 Million

PBT in 2021, up 21%

Bancassurance Case Study - K-pipes and Fitting Center Limited

Born to be an Entrepreneur

My name is Ernest Mburu Muinamu, the director of K.Pipes and Fitting Center (Kikuyu Pipes). I was born in 1988 in Kahuho village of Kikuyu, Kiambu County. Plumbing has been my passion since I was young. I used to accompany my father each time he went to fix taps and pipes in people's houses and buildings. I was his right-hand man, what many commonly refer to as KYM (Kanda Ya Moko). Through observation as well as practice, I became a plumber, and during school holidays, I would get small contracts that earned me the much-needed pocket money. Entrepreneurship has been in my blood since I was young. I remember operating a tree nursery where I planted seedlings for sale during the rainy seasons. This project ensured that my pockets were never empty.

After completing my KCSE exams in 2010, I enrolled for a course in plumbing. I was keen on learning the nuts and bolts of the trade and longed for the day that I would become a sought-after contractor, moving from one site to another. As I delved into my trade serving clients, I quickly discovered that I was not going to be in multiple sites at the same time and came up with a solution to serve the growing demand for plumbing items. I raised capital through short-term contracts and a chain of referrals and started Kikuyu Pipes in 2012 as a hardware shop. To my great surprise on the first day, I sold goods worth KShs 50,000 and raked in KShs 10,000 as mark up. At this point, I made a move from a plumber to a merchant, and I have never looked back. The business has grown over the years, and we currently have 35 branches in various counties in Kenya.

KCB as a Partner

I joined KCB Bank in 2017, and they have walked with me in my business journey. They are real partners who have supported the growth of my business. They have financed its expansion, helped me engage with likeminded businesspeople through their Biashara Club forums and even ensured that my insurance needs are well taken care of. KCB is a real "Partner Kwa Ground"

How Insurance works

Despite the infodemic and negative connotations about insurance, it does really work. I learnt this through experience. The journey of success comes with its fair share of ups and downs, and business activities can affect you and your stakeholders in serious and costly ways. The financial consequences of a potential mishap could easily wipe out a company's assets.

I discovered the value of Insurance on September 6, 2020, when a huge fire razed down my business shop in Kikuyu Town. I was away on a business trip when I received numerous calls that my premises was on fire. I almost fainted, and for a few seconds, I could not breathe. This was the kind of news a business person never wants to hear because it can be devastating. It was also not the best of times because we were at the height of the COVID-19 pandemic which had dealt a huge blow to businesses worldwide.

Help came from all over. The staff, neighbours, members of the public and fire marshals from various fire stations all tried to arrest the situation, but PVC materials fueled the fire and the inferno destroyed almost everything. At the end, stock worth more than KShs 69 million was destroyed, and we were only able to recover items worth KShs 162,720.

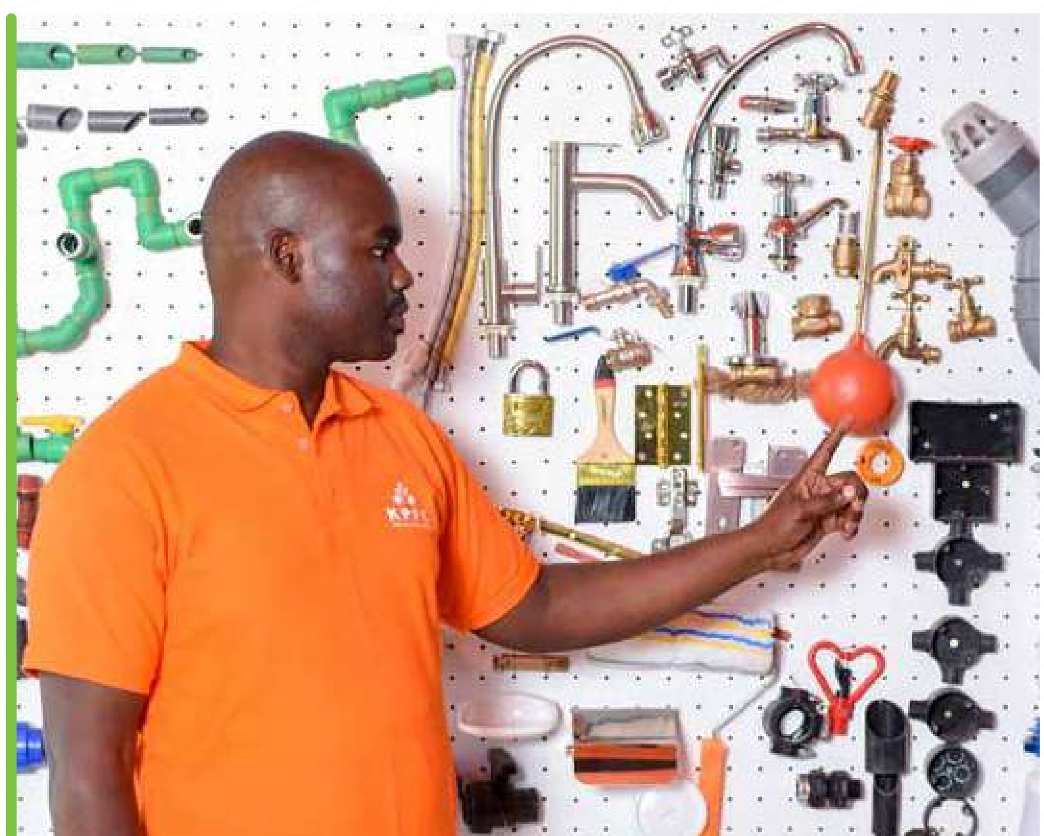
Where would I be without KCB?

Through the KCB Bancassurance Intermediary, my insurance claim was followed up in record time. The staff stood with me and guided me on how to complete the claims documentation. It's at the claims level where the rubber meets the road. Today I advise hardware owners to make proper insurance arrangements through KCB Bancassurance. Beyond fire insurance, hardware shops should comprehensively insure their motor vehicles, and have burglary policies and fidelity guarantees in case of theft by employee. These insurance covers provide the business owner a sense of security and safety.

The Road ahead

We are set to have at least 200 branches in the next five years through our franchise model. I believe KCB Bancassurance Intermediary will ensure that this vision is well protected from unpredictable circumstances.

Businessmen and women, let's protect our most important assets.



Strategy Review

Our Sustainability Update

Sustainable Institution for a Sustainable Future

Sustainability is a dynamic subject matter that keeps evolving to ensure that better actions are taken towards a sustainable future that takes into account the needs of the present without compromising the future generation's ability to enjoy the same resources. We understand that integrating sustainability into business operations will go a long way in creating a shared value for our communities and safeguarding life on earth. We have therefore stepped up to the best sustainability standards.

To foster the sense of accountability to our sustainability goals, the Bank monitors its progress on the adopted 9 United Nations Sustainable Development Goals that make up part of its sustainability strategy. In ensuring that we remain focused on the monitoring and reporting of the adopted SDGs, the Bank has aligned with the United Nations Environmental Programme Financial Initiative's (UNEP Fi)' Principles of Responsible Banking (PRBs) which it was part of the founding Financial institutions in 2019. These principles constitute an overarching framework that guides Financial Institutions in aligning business strategies and practises with society's goals.

Throughout our sustainability journey which we embarked on in 2008, we have committed to measurable and quantifiable achievements, including setting sustainability targets and reporting on progress.

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Our response in the wake of Climate Change

Threats to future generations posed by climate change continue to be real, as it was emphasized during the recent Conference of Party (COP) 26 session. It confirmed to financial institutions that what mattered most was action beyond agreements and policies. It is a call to action for financial institutions to channel more support on projects that tackle climate change. As part of its strategy the Bank has adopted SDG 13 on climate action in an effort combat climate change and its impacts. To complement this call, the Bank has embarked on an intentional target to transform its portfolio to support more green projects, companies, and clients transition to a low carbon resilient pathway. To cement its support to combating climate change, the Bank committed to Net Zero in April 2021 and immediately embarked on portfolio realignment where it initiated a portfolio mapping targeting its green lending. To future scale up its intention, the Bank set a target to transform to 25% green facilities by 2025 up from the current 8.4% with the aim to finally achieving Net Zero by 2050. This development comes to add to what the Bank had been doing over the years in ensuring that its investment decision do not have negative environmental or social economic impact through having a robust Environmental and Social Management System in place.

Mapping KCB Group adopted SDGs to Key Initiatives.

The Group made a commitment to adopt 9 goals which have further been integrated in our strategy and objectives as its imperative to sustainable development. The Group's 9 adopted SDGs are SDG1- No poverty, SDG8- Decent Work and Economic Growth, SDG9-Industry Infrastructure and Innovation, SDG10-Reduced inequality, SDG11-Sustainable Cities and Communities, SDG12-Responsible Consumption and Production, SDG 13- Climate Action, SDG16- Peace Justice and Strong Institutions, and SDG17-Partnership for Goals. To fully align with these SDGs each Division within the Bank has set out key performance indicators (KPIs) in line with the global standards which are tracked through an automated SDG dashboard tool to allow for qualitative and accurate reporting on progress.

The mode of tracking used i.e. the automated dashboard has allowed for real time tracking of the various indicators per division. This has assisted the Bank to identify targets achieved under each adopted SDG, generate progress reports, and identify gaps and key areas of improvement. The system will help us be accountable for every SDG we have adopted.

The impacts of these goals are intertwined, and the achievement of one goal results in the achievement of the other.

Key Areas of our Focus.

a. Responsible Finance

As the leading financial institution in East Africa, it's our mandate to lead in sustainable finance and stand out as a thought leader in this field. For this reason, the Bank has adopted SDG Goals 12 and 13 on responsible consumption and climate action respectively and developed various actions in its operations to support the achievement of this commitment. Some of the initiatives/milestones that have been put in place are as below;

- Signed up to the UNEP – FI Net Zero Banking Alliance in April, committing to transition all operational and attributable Green House Gases (GHC) emissions from our lending and investment portfolio to net-zero by 2050. In this regard, the Bank plans to work with its clients to ensure support of decarbonisation technologies through mitigation and adaptation strategies. This will set us on a cost-effective and low carbon development pathway, resulting in a clean, dynamic and resilient energy economy dominated by renewable energy sources, energy efficiency and sustainable infrastructure.

- The Bank also joined a group of other global financial institutions forming the Glasgow Financial Alliance towards Net-Zero(GFANZ). This alliance enabled financial institutions to have a single voice of commitment during COP26 on how they will be tackling climate change, and increasing climate flows to emerging markets and developing countries. Further to this the Bank is

Principles of Responsible Banking

Alignment

For over a decade now, we have consistently sustained our efforts in pursuit of these objectives.

We have adopted 9 of the 17 SDGs and integrated them in our operations.

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
13 CLIMATE

Stakeholders

Under our 2jiajiri program, we have set out to work with the Mastercard Foundation's Young Africa Works to create employment for 1.5 million youth over the next five years. In 2021, 4,384 youths were trained and transitioning to the business incubation under the 2jiajiri program.

We have secured funding from the International Finance Corporation to support climate sensitive investments with a specific emphasis on the reduction of greenhouse gas emissions for large SMEs and Corporate Customers.

In 2020, KCB was accredited by the United Nations Green Climate Fund meaning that the Bank can finance green projects of up to 250 million dollars.

To cement its support to combating climate change, the Bank committed to Net Zero in April 2021.

Transparency and Accountability

KCB Group has sustained its efforts to give comprehensive reporting on its sustainability efforts, through annual integrated and sustainability reports.

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Impact and Target Setting

In 2021, proportion of climate finance portfolio stood at 8.4% of the total loan book.

Currently the Bank has a target to increase its green portfolio to 25% by 2025.

Client and Customers

The Bank rolled out an MSME campaign to provide more financing to this key segment to boost their working capital by reviewing their loan appraisal process and enhancing limits to ensure more financing is availed to these customers. In 2021, KSh 89 billion was lent to our MSME customers.

KCB Bank advanced mobile loans of KSh157.6 billion in line with the Principle for client and customers.

In addition, the Group screened clients' projects worth KSh 245 billion through the Environmental Social Due Diligence exercise to affirm that we financed sustainable projects.

Governance and Culture

The Group is continuously training its business team and C-suite team on the new green path to ensure it achieves its target and put policies in place that govern the running of it's business operations.

Strategy Review

working with other members of GFANZ to align financial flows to emerging markets and developing countries.

- The Bank revised its Risk appetite policy to include green finance. This is an initial step that will see risk assessment include the climate impact first, thus providing an avenue for increased green lending.

- The Bank has continued to screen it's facilities against the Environmental and Social Governance framework by conducting environmental and social due diligence (ESDD) on both SME and Corporate projects. In 2021 we recorded an all high of screened projects worth KShs. 244.8 billion. This achievement was due to a deliberate initiative to screen all projects above KShs. 50 million in the retail section and all corporate projects while continuously building capacity.

- Finally, to further streamline the assessment process, the Bank is automating the evaluation, thus increasing transparency and quality of reports done on our ESDD process.

The Bank has continued to screen it's facilities against the Environmental and Social Governance framework by conducting environmental and social due diligence (ESDD) on both SME and Corporate projects. In 2021, we recorded an all high of screened projects worth KShs. 244.8 billion.

b. Sustainable Institution

In an effort to support SDG Goals 16,11 and 12 on peace, justice and strong institutions and sustainable cities and communities respectively the Bank rolled out the first-ever Suppliers' code of conduct which is centered on sustainable operations. With this, it is expected that service providers will be aligned to environmental and social governance positive operations.

In line with the Bank's Net Zero Commitment we plan to assess various sectors for KCB Scope 3 (portfolio) baseline emission targeting both customers and suppliers and transitioning them to the green economy with an aim of reducing the emissions. In line with the adopted goal on SDG 12 on resource consumption, the Bank managed to surpass its target of 10% reduction in both resource consumption and carbon footprint. The Group reduced its resource consumption to 17% and carbon footprint to 11.25% respectively.

c. Climate Financing

The Bank adopted SDG 13 in 2009, with this we embarked on a serious climate action journey, and majority of our activities are aligned towards ensuring concerted efforts towards climate change mitigation and adaptation initiatives. Our climate financing portfolio received a major boost following our Global Climate Fund (GCF) accreditation in 2020. 2021 being the first year of project financing, we set the ball rolling by:

- Conducting capacity building for staff to understand green financing and ensure they become aware of the GCF funding process to support GCF climate projects in Kenya.

- Establishing the KCB GCF portal to help project developers easily unpack the GCF process and to be able, to help the staff and different stakeholders interested in the GCF fund access information on various guidelines, requirements, and procedures of the application and funding process.

- Profiling two pipeline projects to GCF for consideration and some of them have seen some milestones being achieved in the quest for accessing funding.

- Partnering with IFC, the Bank carried out training for the SME and Corporate teams on Climate Financing before rolling out the Climate Assessment for Financial Institutions. The tool now enables the Bank to assess the climate eligibility and measure the development impact of the projects we finance.

In line with the adopted goal on SDG 12 on resource consumption, the Bank managed to surpass its target of 10% reduction on both resource consumption and carbon footprint. The Group reduced its resource consumption to 17% and carbon footprint to 11.25% respectively.

KShs. 245 Billion

Value that underwent ESDD Screening in 2021

8.4%

Proportion of Climate Finance Portfolio in 2021

KCB Foundation

Last year, 2021, offered some hope with the roll-out of COVID-19 vaccines and adoption of public safety measures that saw the country operate with renewed hope and energy to make progress in all spheres.

While the global pandemic had a disproportionate impact on the poor and vulnerable in 2021, KCB was able to make positive progress in executing its mandate to champion socio-economic progress of the communities in which the lender operates in.

Through its social investment arm, which exists to champion creation of shared value to communities in times of crisis, the Foundation disbursed over KShs 12 million in response to 113 community support programmes that cut across shelter, health, food and nutrition, protection, water, sanitation and hygiene.

The KCB Foundation revamped its scholarship programme model in 2021 to incorporate university scholarships in its portfolio. This is in addition to the existing high school scholarship programme worth over KShs 131 million to be spread out over the next ten years.

The best 50 performers from the high school programme will receive a university scholarship that caters for their tuition costs in any public university in Kenya, commencing with the 2020 high school graduating class.

A total of 320 high school and 49 university scholarships were handed out during the year, enabling bright, underprivileged students to continue with their education and have a chance at a better future. In total, the KCB Foundation spent KShs 101 million last year to support the programme.

Additionally, the KCB Foundation introduced an annual apprenticeship programme, that will see the top 50 performers from the high school scholarship cohort get a three-month apprenticeship at their local KCB Bank branch after the announcement of the results.

The 2jiajiri youth skills training and job creation programme enrolled a total of 1,235 beneficiaries in the year, with 1,871 recipients transitioning to the business incubation. Over KShs. 56 million was spent to train students across the country.

Through a partnership with Mastercard Foundation, under the Young Africa Works, KCB Foundation created a total of 9,634 jobs with beneficiaries at the Ngong Farm exploring a value addition initiative by converting grade 3 tomatoes into tomato sauce. Cumulatively, the programme has created 14,051 jobs.

Under the programme, the Foundation recruited 1,201 beneficiaries, a further 549 under the creative pillar, and onboarded 2,228 youth into business development services where they will be taught how to set up and run their enterprises successfully.

The Foundation spent a total of over KShs 25 million as stipend for the beneficiaries of the 2jiajiri and Young Africa Works programme to enable them to attend the training by covering their transport and meal costs.

Collaboratively, both the KCB and Mastercard Foundations embarked on a comprehensive review of the Young Africa Works programme with a view of redesigning it to accommodate key learnings from year one of operations as well as the unforeseen realities brought about by the pandemic.

The Mifugo ni Mali livestock enterprise development programme made key strides in 2021 with 45 farmer producer organisations getting training in various leadership and financial management courses for capacity building and exposure to various livestock value chains. Cumulatively, the Foundation has trained 232 farmer producer organisations.

A total of 1,854 farmers were trained on how to maximise the value of their investments and 6,073 livestock were tagged to enable traceability and thus improve export marketability. Tracking also plays a significant role in reducing insecurity and cattle rustling activities. Cumulatively, the Foundation has facilitated the tagging of 44,280 livestock.

12 farmer producer organisations were linked to new markets for their produce, increasing their profitability. They were also trained on leadership and financial management skills enabling them to be more competitive.

In the subsidiaries, focus was on the recruitment of beneficiaries in the three countries where the Foundation is active – Rwanda, Uganda and Tanzania. This effort was boosted by KCB Foundation's partnership with the German Agency for International Co-operation (GIZ) 4D/SOGA to provide technical and vocational skills training for the next three years to young people in Kenya, Uganda and Tanzania with 1,346 beneficiaries being recruited under the programme.

9,634

Jobs created under the Young Africa Works program in 2021

49

Inaugural University scholarships provided in 2021

45

Farmer producer organisations trained

Our Social Investment

Foundation Case Studies

Wendy Musira - I swapped teaching with plumbing

Wendy Musira is a single mother of two boys aged eight and two years. She is the fourth born in a family of four girls and three boys, and her father is a policeman while her mother is a greengrocer. Wendy was working as an untrained teacher in Kariobangi South, Nairobi, when she heard about the Young Africa Works Programme.

When Wendy heard about the project from a friend, she did not hesitate. "I immediately responded and joined Arcskills for training in plumbing," she said. Arcskills is the anchor partner in charge of thet construction of the greenhouses. The other anchor partners are Gearbox, who manufacture the greenhouse parts and Miramar International College, who train beneficiaries in hydroponic farming.

Wendy's training was conducted at CITC Pumwani under a full sponsorship from the Young Africa Works Project. Why plumbing, one might wonder, and Wendy responds: "I found the plumbing job interesting; you can do it anywhere and you can do it for life."

After three months of intensive training and mentoring in plumbing, Wendy was deployed to the Arcskills site at Ngong-Kibiko to assist in constructing 100 hydroponic greenhouses for the project. Her plumbing training came in handy because hydroponic farming relies on feeding crops through an intricate network of pipes which distribute water and nutrients from a central point to every plant in the greenhouse.

"Plumbing in the greenhouse is critical because it is the way the crops get their food and water. If you get it wrong, the greenhouse will not perform," Wendy noted. This sees her pay extra attention to her work, while she also gets involved in other roles at the site such as supporting the masons and doing general duties. Wendy has also acquired skills in steel fixing and is happy to lend her hand in this aspect of the work at the site.

Why did she exchange teaching for plumbing? "I was curious to explore another way of earning a living. The plumbing is already paying well, and I can do plumbing in my own time to make an extra coin," she said. Wendy had been teaching for three years before she opted to join the programme.

The future for Wendy involves setting up a plumbing business, something she already does on the side. "I offer plumbing services during the weekends," she noted. She gave an example of a kitchen sink she fixed for a client at a charge of KShs 1,500. "I really enjoyed that job and I followed up later to make sure the problem had not recurred," she said.

The Young Africa Works Project provides ladies with the amazing chance to take up at least 70% of the 114,000 beneficiary opportunities on the five-year project. This is one of the opportunities Wendy has taken up with such enthusiasm, and which has given her an opening into the world of plumbing and financial independence.

Our Social Investment

Emily Kanana – My dream is to be a construction business owner

"Most ladies fear construction work, but I told myself that I can do it," said 21-year-old Emily Kanana, a construction beneficiary. Standing at a height of 5 feet, 5 inches, the lady would not strike one as a typical construction worker. However, once she starts talking, her focus and intensity come through. "When ladies say I cannot do this, I challenge myself to do the opposite," she said, her face breaking into a full grin.

Emily comes from a family of five; she is the last born. She has two brothers and two sisters. Her parents are farmers in Meru, where they grow various crops for subsistence. She attended Kianjai Girls Secondary School in Meru and completed her secondary school exams in 2017. In 2018, she joined the Meru Youth Service (MYS) for a one-month community service training programme. MYS is patterned after the National Youth Service, an organisation that trains youths in various trades and provides a platform for them to participate in national building.

Her stint with the MYS got her a scholarship to study masonry at Meru National Polytechnic for a period of six months. She earned a Grade 1 Certificate in masonry in late 2018. The course was an eye opener for her. "I constructed a house as part of my practical studies and I felt very proud of myself," she recalled with a chuckle. After her studies, she began doing odd jobs at various construction sites in Meru, while at the same time being available to the Meru Youth Service for any community service engagements available. It was while at this stage of her life that she heard about the Young Africa Works Project and applied to join in 2020 and was accepted.

Once she joined the project, she underwent a three-month training course in masonry at Arcskills, before moving onto the Ngong Kibiko farm for another three months of on-the-job training and mentorship. After her training, she plunged into greenhouse construction. Her main role was installing the glazing paper on the greenhouses and supporting the construction teams in any other roles.

Emily, who still works at the Ngong Kibiko farm maintaining the greenhouses, looks to the future with hope. She and a colleague, Bernard Munene, have partnered to register a business, Emma Imenti Masons. Their plan is that the business will wholesale construction materials in future.

"In 10 years, I will be running my own business, and I want to be among the most successful women in the sector," she said. "I have tried my hand at construction, and I like it. It is not as hard as I thought," she added. Meanwhile, she continues to earn her living from the Young Africa Works Project.

In 10 years, I will be running my own business, and I want to be among the most successful women in the sector

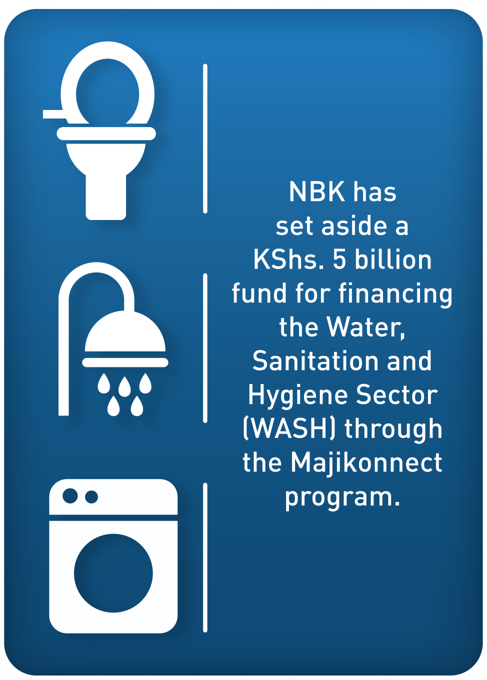
Our Social Investment

NBK Majikonnect Programme

National Bank

A Subsidiary of KCB Group PLC

In recent years, much progress has been made in increasing access to drinking water and sanitation, but still too many people lack access to safe, sustainable water supply and sanitation services. In 2021, the National Bank of Kenya (NBK) adopted 6 Sustainable Development Goals (SDGs) with an anchoring focus on SDG 6 – Clean Water and Sanitation.



The adoption of the water proposition is the Bank's flagship social investment programme. The Bank is committed to supporting SDG 6, which seeks to ensure availability and sustainable management of water and sanitation for all by 2030. Going beyond "improved" drinking-water and sanitation, Target 6.1 calls for universal and equitable access to safe and affordable drinking-water, and Target 6.2 aspires to enable access to adequate and equitable sanitation and hygiene for all, as well as the end of open defecation. A large financing gap has been identified as one of the greatest barriers to achieving these targets. NBK's commitment also espouses Article 43(1) (d) of the Kenyan Constitution, which stipulates that "Every person has the right to clean and safe water in adequate quantities.

As a result, NBK has set aside a KShs. 5 billion fund for financing the Water, Sanitation and Hygiene Sector (WASH) through the Majikonnect programme.

Majikonnect is a financing programme for the water sanitation and hygiene sector targeting Micro, Small and Medium-Sized Enterprises (MSMEs), Corporates, and Water Services Providers (WSPs).

The programme's objective is to support the water sector with affordable and flexible financing to improve access to water services, spanning from infrastructure to last-mile connectivity.

Majikonnect is in the first year of a five-year programme, and is supported by partnerships with Safaricom, SMART People Africa (SPA), Davis & Shirtliff (D&S), Aqua for All, Water Services Providers Association (WASPA), and United Nations Global Compact.

Aqua for All

Aqua for All is the NBK anchor programme partner. Safaricom and SMART People Africa (SPA) are the IOT/Smart Metering and Billing technology partners. Davis & Shirtliff (D&S) is the energy for water (solarization) partner for WASH enterprises.

UN Global Compact is the technical and social impact reporting, sustainability, and global reach partner. Water Services Providers Association (WASPA) is the marketing partner for local WSPs, while Private Equity Support (PES) structuring the NBK WASH portfolio guarantee facility.

The Majikonnect financing target group constitutes individuals, micro and SME businesses, as well as public, private and community Water Service Providers (WSPs) and corporate size WASH entities. The financing is readily accessible through the short to medium term loans for individuals, micro and SME businesses and the short to long term loans for WSPs and corporates.

Natural Capital

Climate change threats are attracting an increasing amount of societal, regulatory, and political attention. Embedding climate risk into the Bank's operational framework in accordance with regulatory expectations, as well as adapting the Bank's operations and business strategy to address the financial risks posed by both the physical risk of climate change and the risk associated with the transition to a low-carbon economy, could have a significant impact on the Bank's business.

Over the years, KCB Group has continued to demonstrate its commitment to the environment by extending social and environmental screening criteria to loans and by adopting best practices within the head office and also within the branch network by introduction of a series of measures to ensure environmental conservation.

The Group recognizes its responsibility to achieve the global climate goals and is investing in learning and capacity building to ensure systemic change, advancing together so that no one is left behind. The group is focused on adequately embedding risks associated with climate change into its risk framework to appropriately measure, manage and disclose the various financial and operational risks it faces as a result of climate change. In addition, it has adapted its strategy and business model to the changing market expectations on climate change.

Our Social Investment

The Majikonnect Loans for Individuals, Micro and SME businesses have a tenure of up to 48 months. It is specially designed to help WASH enterprises expand their businesses by accessing up to KShs.5 million with the benefit of insurance cover on the assets purchased. Majikonnect Term Loan on the other hand, is a facility with a tenure of up to 10 years.

MajiKONNECT
Connecting you to Opportunities

NBK has adopted 6 of the SDGs with anchor focus on SDG 6 - Clean water and sanitation

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

7 AFFORDABLE AND CLEAN ENERGY

11 SUSTAINABLE CITIES AND COMMUNITIES

6 CLEAN WATER AND SANITATION

Ensure availability and sustainable management of water and sanitation for all

The programme financing will cater for the following:

For WSPs and Corporates

1. Expansion and rehabilitation of water and sanitation infrastructure.
2. Construction of water storage and reservoir facilities, treatment plants, tanks and boreholes.
3. Increasing household connections
4. SMART metering.
5. Solarization and energy efficient projects.
6. Digitization projects such as enterprise resource planning (ERP), billing systems and water management systems.

For MSMEs

1. Supply chain financing.
2. Acquiring and implementation of water refilling plants.
3. Drilling of boreholes.
4. Purchase of storage tanks, water bowsers and exhausters.

Objectives of the programme

1. To help increase efficiency in water service provision.
2. To improve access to water for individuals, communities, and entities.
3. To support increase of households connected through financing of last mile projects.
4. To reduce water costs through financing of solar projects.
5. To help attain energy savings and increase green energy footprint.
6. To reduce non-revenue water (NRW) through financing SMART metering and billing ERPs.
7. To provide payment solutions that will enhance smooth revenue collection.

Targeted programme impact (Year 1-2)

1. New access to WASH services for 600,000 people in rural and peri urban areas of Kenya.
2. 4,400 created/sustained direct jobs in the WASH sector.
3. Support up to 1,000 SMEs.
4. Reduction of non-revenue water (NRW) in project sites by up to 40%.

Grey Crowned Crane at Lake Mburo, Uganda.

Corporate Governance and Risk

Corporate Governance

Corporate Governance Statement

The Board of Directors ("Board") of KCB Group Plc. ("Company") consider that good governance, achieved through an ethical culture, competitive performance, effective control and legitimacy, can create sustainable value and enhance long-term equity performance.

The Board applies good governance practices to promote strategic decision making for the organization to balance short, medium and long-term outcomes to reconcile interests of the KCB Group as a whole together with its stakeholders and the society to create sustainable shared value. To that end, sound governance practices, based on accountability, transparency, ethical management and fairness, are entrenched across the business.

Directors have a statutory duty to promote the success of the Company for the benefit of its stakeholders. In promoting the success of the Company, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Company's operations on the community and the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board is committed to ensuring that the Company complies with the laws, regulations and standards applicable to it. The Board ensures that high standards and practices in Corporate Governance and more specifically the principles, practices and recommendations set out under the *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015* ("the CMA Code"), the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Group and KCB Bank Kenya Limited as well as the Companies Act, 2015 ("the Act") are adhered to.

The Board also regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations across all the countries where we operate. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

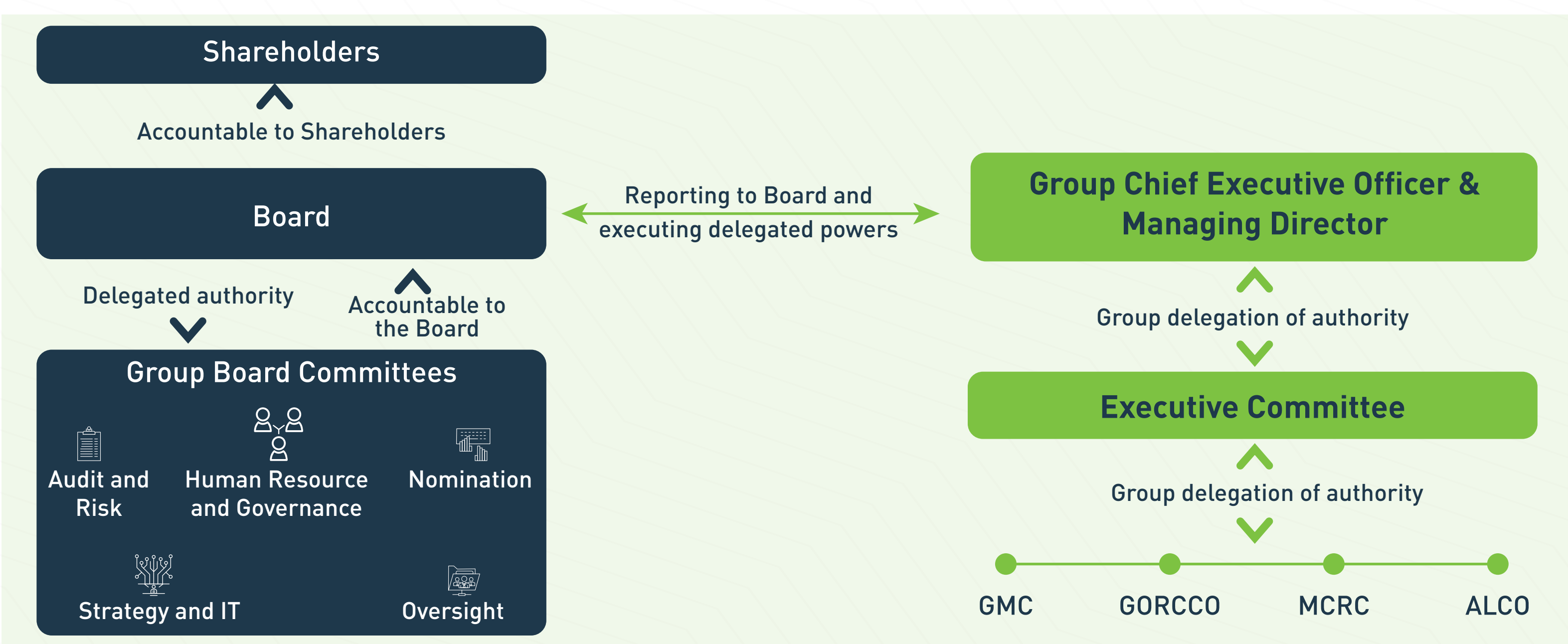
This statement details the key corporate governance arrangements and practices of KCB Group Plc. and its affiliate companies (collectively, the "Group"). The statement sets out the key components of KCB Group Plc.'s corporate governance framework, which provides guidance to the Board, management and employees and defines the roles responsibilities and conduct expected of them.

Governance Structure

Governance Framework

KCB Group operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Group while entrusting the day-to-day running of the organization to the executive management led by the Group Chief Executive Officer & Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through five committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently.

The fundamental relationships between the Shareholders, Board, Board committees and executive management is illustrated below:



- GMC – General Management Committee • ALCO – Assets and Liabilities Management Committee
- GORCCO – Group Operational Risk and Compliance Committee • MCRC – Management Credit Risk Committee

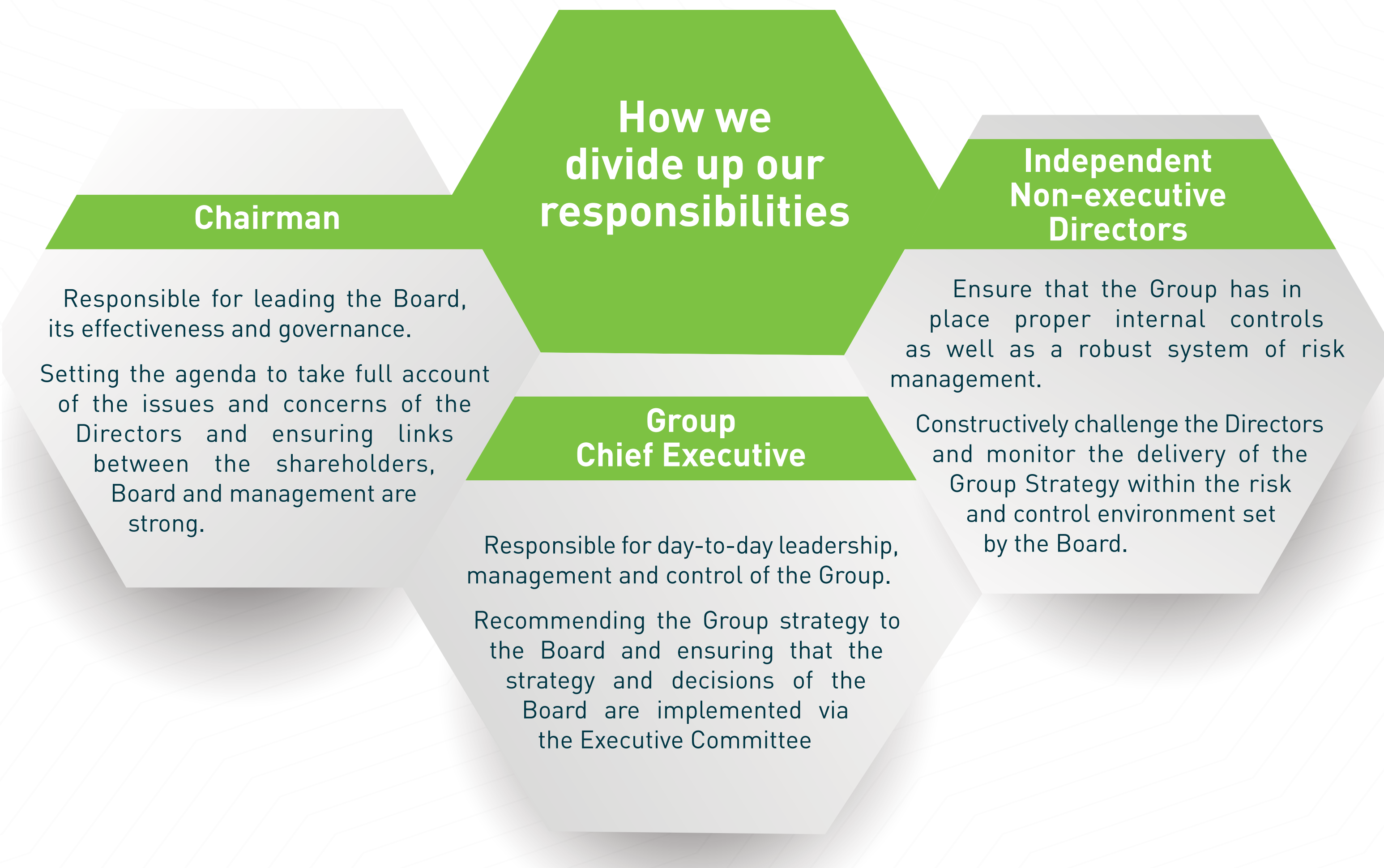
Corporate Governance

The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Group Chairman, directors as well as the Company Secretary.

The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer & Managing Director are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business. The KCB Group Board Charter is available on the company website www.kcbgroup.com

Separation of Roles and Responsibilities

The role of Chairman is separate from that of the Group Chief Executive. There is a clear division of responsibilities. Care is taken to ensure that no single Director has unfettered powers in the decision-making process.



The Board

KCB Group Plc. is governed by a Board of Directors ("Directors" or "Director") each, except for the Group Chief Executive Officer & Managing Director and Group Chief Finance Officer, elected by the Company's shareholders.

The primary responsibility of the Board is to act in the best interests of KCB Group and to foster the long-term success of the Group, in accordance with its legal requirements and its responsibilities to shareholders, regulators and other stakeholders. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting.

The Board serves as the focal point and custodian of corporate governance in the organisation. The directors recognise that good governance can create shareholder value by enhancing long-term equity performance. While the board is unwavering in its adherence with legislation and regulations, the Group's commitment to good governance goes beyond a commitment to comply with minimum standards – it strives to create an ethos where governance is a central consideration in the way the business of the Group is conducted.

Corporate Governance

Role & Responsibilities of the Board

The scope of authority, responsibility and functioning of the board is contained in a formal charter which is regularly reviewed. The Board sets the strategic objectives of the Group with input from management, and oversees management, performance, remuneration and governance frameworks of the Group. The board develops and applies a work plan to help to ensure that it attends to all its responsibilities when these responsibilities have not been delegated to a committee.

The Board's role and responsibilities include:

i. Approving the strategic and financial plans to be implemented by management approval of the strategy, business plans and annual budgets and of any subsequent material changes in strategic direction or material deviations from business plans.
ii. Approving the annual financial statements and the integrated annual report and the approval of interim reports
iii. Overseeing the Risk Management Framework and its operation and setting the Group's risk appetite within which management is expected to operate.
iv. Approving capital expenditure for investments and divestments and capital and funding proposals.
v. Reviewing succession planning for the management team and makes senior executive appointments, organizational changes and high-level remuneration issues.
vi. Providing oversight over performance against targets and objectives.
vii. Providing oversight over reporting to shareholders on the direction, governance and performance of the Group as well as other processes that require reporting and disclosure.
viii. Providing oversight over the activities of the subsidiaries of the Group.

Authority and Delegation

The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long-term objectives of the Group, the Group's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board committees to consider key issues.

Further details of the Board committees including their respective roles, key responsibilities, composition and membership are provided later in this Statement.

The Group Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors can speak freely and contribute effectively. The Group Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer & Managing Director. The Group Chief Executive Officer & Managing Director in turn delegates aspects of his own authority to members of the Executive Committee. The scope of, and limitations to, these delegations are clearly documented in various policies and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees include the Executive Management Committee (EXCO), the General Management Committee (GMC), the Assets and Liabilities Management Committee (ALCO), the Group Operational Risk and Compliance Committee (GORCCO) and the Management Credit & Risk Committee (MCRC).

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally, when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and succession planning.
The Group Chairman, in conjunction with the Group Company Secretary work closely with the Group Chief Executive Officer & Managing Director to come up with the annual work plan and to set the agenda for each meeting. The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

During the year ended 31 December 2021, the Board held seven Board meetings. A strategic planning session was held in conjunction with the Board meeting held in November 2021.

The following were the key activities undertaken during these meetings in the year:

1. Approval of the audited financial statements for the year ended 31 December 2020. The board further considered and approved the quarterly unaudited financial statements for the year.
2. Approval of a first and final dividend amounting to KShs. 3.2 billion for the year ended 31 December 2020. In November 2021, the board approved the payment of an interim dividend to shareholders amounting to KShs. 3.2 billion.
3. The board oversaw the implementation of the reviewed organization structure that came into effect from 1 January 2021 through the approval of organization redesign of various business units.
4. The board continued to oversee the finalization of the acquisition of BPR Rwanda and the commencement of the integration following the completion of the acquisition by KCB Group.
5. Finalization of the delisting of National Bank of Kenya Limited from the NSE as well as its recapitalization.
6. Overseeing the succession planning of the Group board and the subsidiary boards.
7. Received a report on the board evaluation.
8. Reviewing and approving the strategic initiatives and financial plans for the year 2022.

Board Appointment, Composition and Diversity

Appointment of Board Directors & Tenure

Succession planning is an on-going process, with the Board discussing the same regularly and robustly. The nomination and appointment process of a director to the board is clearly set out in the Nomination & Appointment Policy. The Policy provides for the Nomination Committee, which is responsible for the selection and appointment of board directors.

Prior to any appointment, the Nomination Committee defines the functions and core competencies for each vacant directorship role. It also develops suitable selection criteria for potential candidates, screens and interviews them. The competencies outlined in the table below are among those considered in the selection of non-executive directors to the board.

Demonstrable business acumen

Directors must have considerable business experience, together with proven understanding of corporate and business processes, which have been accomplished through a successful track record and must have an impeccable reputation in the business community.

Special technical skills or expertise

Demonstrate significant knowledge and achievement in either business, finance, audit, law, technology, governance, strategy, management or other fields important to the operations of the Group. The combined experience of the directors of the board is expected to exhibit these competencies.

Integrity

Directors should demonstrate high levels of integrity, professional and personal ethics, as well as values consistent with those of the KCB Group. Directors must have the ability to exercise independent judgement.

Time commitment

Directors need to be able to dedicate sufficient time to adequately carry out their duties.

The preferred candidates meet with the members of the committee before a final decision is made. The committee then puts the short-listed candidate forward for consideration by the full board. Upon consideration of the board, a successful candidate is appointed to the board. Prior to the confirmation of appointment, all Directors are required to meet the "Fit and Proper" requirements set out in the Prudential Guidelines issued by the Central Bank of Kenya. New Directors are issued with letters of appointment, with clear terms and conditions regarding the discharge of their duties.

As at 31 December 2021, the Board comprised of 11 Directors.

Having served his full tenure of 8 years in line with the Board Charter, Tom Ipomai retired as a Director on 8 July 2021.

Mrs. Alice Kirenge was appointed as a Director on 10 November 2021.

A Director appointed by the Board to fill a casual vacancy must seek election at the next Annual General Meeting ("AGM") after their appointment. As further provided for in the Articles of Association, at every AGM, and as may be applicable, at least one-third of the non-executive Directors must retire from the Board and where eligible, stand for re-election.

During the 50th AGM of the Company held on 27 May 2021:

Mr. John Nyerere, the C. S. - National Treasury and Mrs. Anne Eriksson retired in line with the requirement under the Articles of Association and were re-elected to continue serving as Directors on the board.

Mr. Ahmed Mohamed and Dr. Obuya Bagaka having been appointed to fill casual vacancies on the board, retired in line with the requirement under the Articles of Association and were re-elected by the shareholders to continue serving as directors on the board.

Corporate Governance

The Board Charter provides that non-executive Directors are normally expected to serve a term not exceeding a total of eight years. In accordance with the Board Charter, the Group Chairman serves for a maximum term of five years in that capacity.

Director Induction and Training

All newly appointed non-executive Directors participate in an induction programme. The induction programme includes a series of meetings with other Directors, the Group Chief Executive Officer & Managing Director and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Group Company Secretary on Directors' duties and liabilities.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director. The programme of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and in the particular fields relevant to the Group's operations.

The impact of the COVID-19 pandemic saw the Board embrace online sessions with the Board completing a targeted education session during the 2021 financial year touching on risk management, AML/KYC and Financing of Terrorism.

Board Composition

The Articles of Association of the company provides that the Board shall comprise of a maximum of eleven Directors. The current Board structure comprises of two executive Directors and nine non-executive Directors including the Group Chairman. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

The Board composition is driven by the following principles:

- The board must comprise of a majority of independent non-executive directors.
- The board should consist of directors with a board range of skills, experience and expertise and be from a diverse range of backgrounds.
- The Chairman of the Board must be an independent non-executive director.

Skills, Experience & Diversity

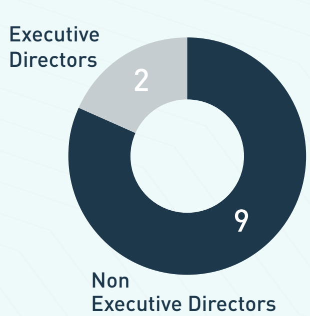
Having regard to the Group's vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities. At a collective level, the Group looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Group.

KCB Group seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Group. The non-executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Group operates.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate, augments and challenges the strategic thinking of the executives thereby adding value to the Group.

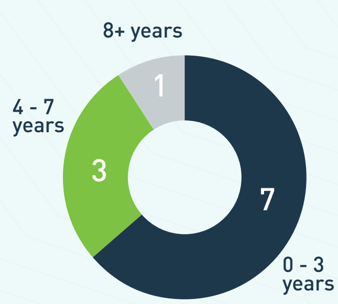
The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. The Board continuously reviews the skills, experience and diversity of the Board and continues to make efforts on diversifying the skillset and gender. The Nominations committee has been tasked to take this into consideration in its nominations.

Independence



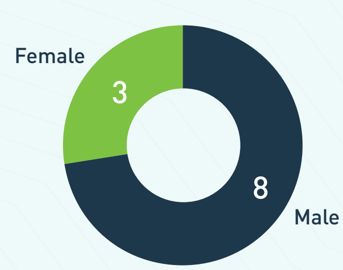
82% of the Group Board Directors are Non Executive Directors

Tenure



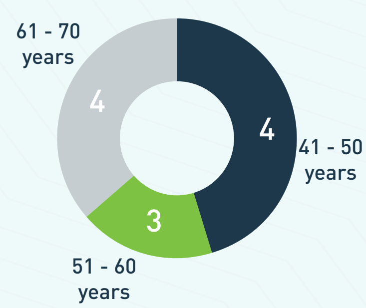
Average tenure - 4 years

Gender Composition



27% of the Group Board Members are women up from 18% in 2020.

Age



Average age 54 years

Corporate Governance

The current Board composition is as follows:

Name	Date of Appointment	Areas of Expertise	Gender	Non-Executive/Executive
Andrew Wambari Kairu	4 June 2018	Business management, corporate governance.	Male	Non-executive Chairman
C.S. National Treasury (Represented by Eng. Stanley Kamau)	24 September 2014	Financial services, public sector.	Male	Non-executive
John Nyerere	16 June 2014	Business management, strategy development and economics.	Male	Non-executive
Georgina Malombe	13 June 2014	Audit quality assurance, auditing, accounting, finance and financial reporting.	Female	Non-executive
Lawrence Njiru	7 August 2018	Business strategy, finance, audit and accounting.	Male	Non-executive
Anne Eriksson	18 December 2019	Audit, quality assurance, financial reporting, internal controls and risk management.	Female	Non-executive
Ahmed Mohamed	12 August 2020	Corporate and commercial law, financing transactions and Islamic finance.	Male	Non-executive
Dr. Obuya Bagaka	28 August 2020	Public administration, public finance and budgeting, governance, policy development	Male	Non-executive
Alice Kirenge	10 November 2021	Strategic marketing, customer service, insurance and financial services.	Female	Non-executive
Joshua Oigara	1 January 2013	Business advisory and management, strategy development, financial accounting and financial advisory.	Male	Group Chief Executive Officer & Managing Director
Lawrence Kimathi	1 May 2015	Financial advisory, financial accounting, business management	Male	Group Chief Finance Officer

Company Secretary

The Company Secretary is a member in good standing with the Institute of Certified Secretaries (ICS). The Company Secretary provides a central source of guidance and advice to the Board on matters of ethics, statutory compliance, compliance with the regulators and good governance.

Role of the Company Secretary

- Providing a central source of guidance and advice to the Board and the Company, on matters of statutory and regulatory compliance and good governance.
- Providing the Board and the Directors individually with guidance on how their responsibilities should be discharged in the best interests of the Company.
- In consultation with the Chairman, identifying and facilitating continuous Board education and Directors' professional development as required and facilitating the induction training of new Directors.
- In consultation with the CEO and the Chairman, ensuring effective flow of information within the Board and its committees and between senior management and non-executive Directors.
- Guiding the company in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision making by shareholders, customers, and other stakeholders.
- Keeping formal records of Board discussions and following-up on the timely execution of agreed actions.

Performance Evaluation

The Board reviews its performance and that of the Board committees and individual directors every year. Every third year, the review is facilitated by an external consultant. In the years the consultant is not engaged, the Chairman leads the assessment of the Board and each Director.

The review in respect of the 2021 financial year was conducted internally by the Group Chairman through the coordination of the Group Company Secretary. The evaluation process was based on a detailed questionnaire which was distributed to the

Corporate Governance

Directors for their consideration. Results were collated confidentially by the Group Company Secretary and reviewed by the Group Chairman.

The detailed questionnaire examines the balance of the skills of the directors, the operation of the Board in practice, including governance issues, and the content of the Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the Directors. The questionnaire also included a series of questions for each Director to assess their own performance and the performance of each other individual Director to identify development opportunities.

The Board evaluation was conducted in February 2022 and the results presented to the Central Bank of Kenya in March 2022 in line with regulatory requirements.

Governance Audit

The CMA Code provides that issuers of securities to the public are required to undertake periodic governance audits. Following extensive stakeholder consultation to consider the frequency, cycle, cost and scope of governance audits, the Capital Markets Authority (CMA) advised all issuers of a revision in the cycle of governance audits to at least once every two years with the option of CMA increasing or decreasing this frequency on a risk-based approach.

In line with the CMA Code a governance audit was conducted on the Company in December 2021 by C. S. Bernard Kiragu of Scribe Services who issued an unqualified report. The audit confirmed that 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.

Corporate Governance Assessment Report

During the year 2021, the Capital Markets Authority assessed the status of implementation of the CMA Code by the Company for the year ended 31 December 2020. The assessment was based on a review of the following areas: commitment to good corporate governance (leadership rating of 80%); board operations and control (leadership rating of 80%); rights of shareholders (leadership rating of 80%); stakeholder relations (leadership rating of 80%); ethics and social responsibility (leadership rating of 81%); accountability, risk management and internal control (leadership rating of 96%); transparency and disclosure (good rating of 72%). The overall rating awarded to the Company was a leadership rating of 81% - a testament to the Board's commitment to sound corporate governance practices. The Company continues to implement the recommendations received from the CMA to improve its level of implementation of the recommendations under the CMA Code.

Legal & Compliance Audit

In compliance with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, an entity is required to undertake a legal and compliance audit with the objective of ascertaining the level of adherence to applicable laws, regulations and standards. A legal & compliance audit was last conducted by the Company in 2019 with implementation of the recommendations being undertaken in 2020. As at the date of this Integrated Report, the legal and compliance audit covering the year 2021 was ongoing.

SCRIBE Services

GOVERNANCE AUDITOR'S REPORT

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 KCB Group Plc ("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 Institute of Certified Secretaries' 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 Group'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 Registrars Limited

Date: 29 April 2022

Corporate Governance

Key 2021 Regulatory changes and their impact to KCB

Kenya

Business Laws (Amendment) (No. 2) Act No. 1 of 2021

- Amendments to various statutes to facilitate the ease of doing business in Kenya.
- The amended statutes are:
  - Law of Contract Act (Cap. 23),
  - Industrial Training Act (Cap. 237),
  - Stamp Duty Act (Cap. 480),
  - NHIF Act
  - Land Registration Act (No. 3 of 2012),
  - NSSF Act
  - Companies Act (Cap 486),
  - Insolvency Act (No. 18 of 2015)) and
  - Small Claims Court Act

Impact to KCB

With the enactment, the Bank needs to:

- amend its policies and re-design its standard documents and contracts to reflect the amendments on execution.
- review and adjust the submission timelines for training levies as required and amend policies where necessary to reflect the amendments.
- review and adjust the submission timelines for remittances to NHIF and NSSF as required
- amend policies to cater for requirement to hold virtual meetings.

Amendment of Risk Weight for Mortgage Loans
Banking Circular 2 of 2021

Amendment of CBK Prudential Guidelines on Capital Adequacy (CBK/PG/03) to reduce risk weight of fully secured residential mortgages with a first charge to reduce from 50% to 35%

Impact to KCB

- Alignment with international best practices on the risk weighting.

Finance Act
No. 8 of 2021

- Amendment of the law relating to various taxes and duties.
- The amended statutes are:
  - Income Tax Act
  - Value Added Tax (VAT) Act
  - Excise Duty Act
  - Tax Procedures Act
  - Miscellaneous Fees and Levies Act,
  - Capital Markets Act
  - Central Depositories Act
  - Kenya Revenue Act
  - Insurance Act and
  - Retirement Benefits Act

Impact to KCB

- Proposed amendments, particularly those relating to income tax, have an effective date of 1 January 2022 while the rest of the proposed amendments will come into force on 1 July 2021.
- Changes to internal policies to reflect changes to corporation and individual tax application relating to employees, suppliers and customers.
- Adoption of Common reporting standards (CRS) by the Bank.

Issuance of Guidance on Climate Related Risk Management

Banking Circular 4 of 2021

Guidance to provide for roadmap for commercial banks to implement short-and medium-term actions of climate risk management in operations and business models.

Impact to KCB

Staged implementation plan to be approved by board and submitted to the CBK by 30 June 2022.

Press Release – Suspension of Credit Listing for MSME's

- Suspension targeted to rope in the MSMEs and for a specified duration that will provide space to turn around their businesses.
- Specified for a period of one year for the suspension.
- CBK recommended threshold of a loan amount of KShs. 5 million and below, that will capture the targeted MSMEs.

Impact to KCB

- Suspension of negative listing of non-performing loans of categorized customers within the stated period.
- Availability of updated credit information temporarily impaired by the suspension.

Corporate Governance

Central Bank of Kenya (Amendment) Act No. 15 of 2021 • Amendment to the Central Bank of Kenya Act, Cap 491 introducing regulation of digital lenders with requirement for digital money lenders to obtain annual licenses from the Central Bank of Kenya (CBK).	**Impact to KCB** • Positive impact with leveling of digital lending environment between the bank and existing non-regulated fintechs.
Kenya Deposit Insurance Amendment) Act 2021 • Amendment to the Kenya Deposit Insurance Act 2012 increasing the minimum amount a person with an account in an institution under liquidation can receive and deleting the maximum amount that can be received.	**Impact to KCB** • Protected deposit has increased to a minimum of KShs.1million
Issuance of Guidance on Libor Transition **Banking Circular 6 of 2021** • Guidance to commercial banks with the framework that they must consider for purposes of ensuring that the transition is well managed, and that all risks are appropriately identified, assessed and managed.	**Impact to KCB** Banks are required to submit information to the CBK monthly given that the transition will only be fully implemented in 2023.
Data Protection (General) Regulations 2021 **Legal Notice No 263 of 2021** • Regulations under the powers conferred by section 71 of the Data Protection Act, 2019, the Cabinet Secretary for Information, Communication, Technology, Innovation and Youth Affairs to draft regulations.	**Impact to KCB** • Regulations give effect to the provisions of the Data Protection Act, 2019. • Bank's products and services to be adjusted by policy development on collection, storage, transfer and deletion of personal data of data subjects.
Data Protection (Complaints Handling and Enforcement Procedures) Regulations 2021 **Legal Notice No 264 of 2021** • Regulations under the powers conferred by section 71 of the Data Protection Act, 2019, the Cabinet Secretary for Information, Communication, Technology, Innovation and Youth Affairs to draft regulations.	**Impact to KCB** • Regulations give effect to the provisions of the Data Protection Act, 2019. • Bank's policy to provide for mechanism of handling and management of data breaches and reporting and rectification of recorded breaches with reference to reports due to the Office of Data Protection Commissioner.
Data Protection (Registration of Data Controllers and Data Processors) Regulations 2021 **Legal Notice No 265 of 2021** • Regulations under the powers conferred by section 71 of the Data Protection Act, 2019, the Cabinet Secretary for Information, Communication, Technology, Innovation and Youth Affairs to draft regulations.	**Impact to KCB** • Regulations give effect to the provisions of the Data Protection Act, 2019. • Bank to register as a data controller and data processor in view of the collection and processing of personal data by virtue of banks products and services.

Corporate Governance

Tanzania

The Finance Act, 2021

- Introduced a requirement for employees to apply for a tax Identification Number (TIN) within 15 days of commencing employment.
- Requires taxpayers keeping documents in an electronic form to maintain a primary data server in the country which will be accessible to the commissioner General, implementation to be done within 12 months.

Impact to KCB

- The bank's compliance will require employee tax (PAYE) payments to quote individual TIN's.
- Data centres to be maintained in-country.

The National Payment Systems (Electronic Mobile Money Transfer and withdrawal transactions levy (Amendment) regulations 2021

- This introduced a levy on electronic mobile money transfer and withdrawal transactions at rates prescribed in the regulations.
- The levy doesn't form part of consideration for and part of the transfer and withdrawal transaction.
- The levies collected shall be remitted to the authority within 7 days of the month following the month to which the levy relates, failure with penalties shall apply.
- A collector shall submit monthly data returns failure to which it shall be liable to pay a penalty of TZS 1 million.

Impact to KCB

- Required change of system to enable automatically deduct the fees when mobile transactions are processed.

Total levy collected shall be remitted to TRA within 7 days after month end

Outsourcing Guideline for Banks and Financial Institutions, 2021 (made under Section 71 of the Banking and Financial Institutions

- Banks and Financial Institutions shall seek prior approval from Bank of Tanzania (BOT) before paying outsourcing fees to service providers.
- Every bank or financial institution shall establish its primary data centre in Tanzania.
- Every bank or financial institution shall build capacity of its Information and Communication Technology (ICT) personnel to be able to run its data centre independently.
- Banks or financial institutions may outsource activities related to data centre operations within the country, provided they comply with outsourcing requirements stipulated under outsourcing guidelines issued by the Bank.
- Assessment of outsourcing arrangement, a bank or financial institution shall consult the Bank where there is an uncertainty as to whether a business activity that is to be outsourced would be regarded as material for the purposes of the new regulation.
- Outsourcing contracts between parties shall not have any exclusivity clauses that will prevent the bank or financial institution to obtain similar services from other providers, to ensure that the bank or financial institution retains control over the outsourced activity.

Impact to KCB

- The bank shall ensure all outsourcing fees is pre-approved by Bank of Tanzania (BOT) before contract signing.
- The bank shall be required to establish a primary data centre in-country.
- The bank shall be required ensure compliance with the guidelines.

The Banking and Financial institutions (Corporate Governance) Regulations, 2021

- A person shall not simultaneously serve as a Board member or in any executive capacity in more than one bank or financial institution in Tanzania unless approval is granted by Bank of Tanzania (BOT) and if there is no conflict of interest.
- A member of the Audit Committee shall not simultaneously serve as a member of other Board Committees.

Tenure of Office

- A Board member or a Chief Executive Officer of a bank or financial institution shall not hold office for a consecutive period of more than ten years.
- Where a bank or financial institution is a product of merger, acquisition, takeover or any other form of combination, the period of ten years referred to under sub-regulation (I) shall include the pre and post combination years of a Board member or Chief Executive Officer.
- A person who has served as Board member or Chief Executive Officer of a bank or financial institution for a consecutive period of ten years shall not qualify for appointment in his former bank or financial institution, or its subsidiaries in any capacity until after a period of three years.
- A Board member or chief executive officer of a bank or financial institution who has served for a period of ten years or more by the date these Regulations come into effect shall have a moratorium period of two years before ceasing to function in that capacity.
- Not more than 25% of the meetings in a year may be held through video conferencing.

Impact to KCB

- Process of appointment of board members shall take into consideration the requirement for approval of BOT where a nominee holds a directorship on another bank or financial institution.
- The bank shall be required ensure compliance with the regulations.

Rwanda

Law No. 007/2021 governing companies

Article 158: Independent or non-executive directors in a public company

- In a public company, a majority of directors must be non-executive directors and at least one-third (1/3) of the directors must be independent directors.
- A non-executive director is a person who does not form part of the management team of the company and who is not an employee of the company or affiliated with it in any other way, but who can own shares in the company.
- An independent director is a person who does not have a material or pecuniary relationship with the company or related persons, is compensated through sitting fees or allowances, and does not own more than two per cent (2%) of shares in the company.

Impact to KCB

Definition of non-executive directors may impact directors' appointment in subsidiaries by the Group.

Regulation No. 37/2021 on the application of proportionality principle to banks

- **Article 11:**
    - Banks were classified in two levels as follows:
        1. **Level I:** banks with total asset equal and above to FRW 200,000,000,000.
        ii. **Level II:** banks whose total asset are below FRW 200,000,000,000
    - Banks classified in level I shall separate the function of risk management with the function of compliance.
- **Article 20**: Maximum amount of interest on outstanding loan
    - A financial service provider must not exceed the following amount of outstanding debt:
        i. outstanding principal debt, in case of repayment default by a financial service consumer.
        ii. interests not exceeding the outstanding balance of principal debt in case a financial service consumer fails to repay as per his or her contract with a financial service provider.
        iii. cost incurred while recovering the total amount from the debtor of the financial service provider.
- **Article 25:** Changing a financial product or a financial service provider
    - A financial service consumer is authorized to change a financial product or a financial service provider.
    - A financial service consumer who pays off early a credit he or she had borrowed from a financial service provider without transferring it to another financial service provider, is not liable to a sanction of early repayment.

Impact to KCB

- KCBR, was subject to the requirement of separating risk department from Compliance as the Bank was classified in level I.
- Bank's income to reduce in case interest in arrears increases and exceeds the principal outstanding balance.
- Loss of income by the bank benefiting from the 5% early repayment charge.

Law No. 017/2021 relating to financial service consumer protection

A financial service provider must:

- Protect the confidentiality and security of personal information of an identified or identifiable consumer of financial service personal information when providing financial products and services.
- Protect consumers of financial services personal information against any anticipated threats or hazards to security or integrity of the information, as well as against any unauthorized access, unless it is otherwise provided by other laws.

Impact to KCB

This requires the Bank to encrypt all data and to ensure strong protection of customer information.

Directive No. 3160/ 2021- 0025 [613] concerning interest trust account as well as fees and charges on push and pull transactions between deposit taking financial institutions and electronic money issuers.

- Prohibition of fees and charges on transfers between e-money and deposit Accounts.
- Charges and fees on transfer of funds between e-money and deposit accounts belonging to the same person are prohibited.

Impact to KCB

Loss of income by Bank since it stopped charging all fees on push and pull in compliance with regulatory requirement.

Corporate Governance

Uganda

Legislation	Impact to KCB
The Income Tax (Amendment) Act, 2021 • Redefined "consideration" for tax purposes and provides for payments that may be subject to income tax. It also creates clarity on payments subject to income tax in instances of asset disposals. • Due date for payment of taxes is the date of self-assessment tax return for taxpayers required to submit self-assessment income tax returns. For default, advance and additional assessments, taxes should be paid within 45 days from the date of service of the notice of assessments.	**Impact to KCB** • Changes in payments subject to income tax. • Strict timelines for payment of taxes based on tax returns.
The Value Added Tax (Amendment) Act, 2021 • Submission of quarterly VAT returns within 15 days from end of quarter by taxable persons supplying services to non-taxable persons. Furthermore, non-residents supplying services to non-taxable persons are required to file quarterly VAT returns within 15 days from end of quarter.	**Impact to KCB** Bank to submit quarterly VAT returns for services rendered to non-taxable persons within prescribed timelines.
The Excise Duty (Amendment) Act, 2021 • Removes requirement for renewal of certificates of registration which previously had a validity period of 12 months. Therefore, once a certificate of registration is issued, it is valid indefinitely unless revoked by the URA.	**Impact to KCB** Removed costs for renewal of the certificate of registration. The Bank will no longer renew excise duty certificate of registration.
The Tax Procedures Code (Amendment) Act, 2021 • Introduced alternative dispute resolution for tax objections where taxpayers are dissatisfied with tax decisions.	**Impact to KCB** In case of tax disputes, the Bank can now use alternative dispute resolution instead of the Tax Appeals Tribunal.
Stamp Duty (Amendment) Act, 2021 • Exemption from stamp duty on debentures, further charges, leases for manufacturers with investment capital of at least USD 50m and capacity to use local resources such as raw material and labour.	**Impact to KCB** Bank customers who meet the criteria will be exempt from paying stamp duty on debentures, further charges for facilities issued by the Bank hence reducing the cost of securities perfection for such customers.
Data Protection and Privacy Act 2019 and Implementation of the Data Protection Regulations 2021. • Introduced Data protection and privacy laws. • The law defines the obligations of Data Collectors, Data Controller, Data and the rights of Data Subjects.	**Impact to KCB** All data collected by the Bank must have client consent and require full adherence to the Act and regulations to ensure no penalties.
National Payments Regulations 2021 • Promotion of safety and efficiency of Uganda's payment systems alongside identification of potential risks posed by the payment systems or financial market infrastructure and steps to minimize the risks and where necessary induce change.	**Impact to KCB** All payment systems utilized and accessed should be fully licensed by Bank of Uganda.
Basel II capital Accord guidelines in Credit, Operational and Market Risk. ICAAP guidelines • Introduction of Operational risk to add to Accord I which only caters for the Credit and Market risk. • Implementation and conducting Internal Capital Adequacy Assessment Process (ICAAP)	**Impact to KCB** Adherence to the minimum capital adequacy levels.
The Financial Institutions (Capital Buffers and Leverage Ratio) Regulations, 2020 • All financial institutions are required to maintain a capital conservation buffer of 2.5% of the total risk adjusted assets plus adjusted off balance sheet items. The revised minimum capital requirements are 12.5% for core capital and 14.5% for total capital.	**Impact to KCB** The Bank may require additional capital to comply with the new Capital adequacy ratios.

Corporate Governance

Director Independence

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders as a whole.

The Board Charter, prepared in line with the CMA Code and the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its directors should be independent.

In accordance with the Board Charter, the Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the shareholders generally.

During the year 2021, except for the directorship held by the Cabinet Secretary, National Treasury, all other non-executive directors of the company were considered independent.

Conflict of Interest

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Group. The Directors are each responsible to notify the Group Chairman and the Group Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorise the conflict, subject to conditions and limitations as the Board may determine.

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act 2015 and the CMA Code. Directors are required to declare a conflict of interest or a material personal interest in any matter concerning the Company immediately for the Board to review. Declaration of conflicts of interest is also a standard agenda item which is addressed at the onset of each Board and Committee meeting. Any Director with a material personal interest in any matter being considered during the Board or committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

The Board also requires all Directors to disclose on appointment and annually any circumstance which may give rise to an actual or potential conflict of interest with their roles as Director.

During the year 2021, except for the directorship held by the Cabinet Secretary, National Treasury, all other directors of the company were considered independent. No incidences of material conflict of interest were identified for any of the Directors.

Access to Information and Independent Advice

The Board is entitled to seek any information it requires from any Group employee or from any other source. Procedures are in place, through the Group Board Chairman and the Group Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant Company information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also entitled to obtain independent legal, accounting or other professional advice at the Company's expense. The Board may conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to fulfill its duties.

Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

In line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya, KCB Group Plc is the majority shareholder in all the subsidiaries within the Group and has the overall responsibility for the Group and to ensure adequate corporate governance is in place across the Group.

The subsidiaries operate as separate legal entities in their respective countries. Each subsidiary has a Board of Directors that has oversight functions over the management of the subsidiary.

Each subsidiary Board comprises of a majority of non-executive directors. The Group Board Charter requires that country Boards be guided by the same governance principles as the parent company. The boards of directors of the subsidiaries are accountable to the subsidiaries' shareholders for the proper and effective administration of the subsidiaries in line with overall Group direction and strategy. These Boards also have statutory obligations based on local legislative requirements in their respective countries. In the event of any conflict with Group policies, the local laws prevail.

The Group Board's confidence in the activities of its controlled entities stems from the policies put in place that are adopted across the subsidiary companies as well as the quality of directors on those subsidiary boards. At least one member of the KCB Group Plc Board sits on each of the subsidiary boards as a member.

Subsidiary Governance Model

With regards to the governance of its subsidiaries, KCB Group adopts a dual reporting model. The subsidiary's corporate governance is administered both by the local Board and the Group Board concurrently.

Legally, the country board has ultimate responsibility for the subsidiary, but KCB Group, as the majority shareholder (in almost all cases holding 100%) and being overall responsible for the strategic direction of the Group, has a duty to ensure that the subsidiary is run properly. As a result, the subsidiary Managing Director has dual reporting lines to the local Board and to KCB Group's Executive Management. The local Board has access to the KCB Group governance and management structure. The local Boards are legally constituted, and directors' duties comply with the host country's legal system.

Corporate Governance

The subsidiaries at all times comply with the Group Board Charter, subject only to local legal requirements.

Board Committees

The Board has delegated authority to various Board committees to be able to undertake its mandate effectively and efficiently. In deciding committee memberships, the Group Chairman endeavours to make the best use of the range of skills across the Board and share responsibility. Overlapping memberships considers instances where matters raised in one committee may have implications for another. Membership is reviewed periodically by the Group Chairman in collaboration with the Nominations Committee.

The Board receives a report from the Chairman of each committee on significant areas of discussion and key decisions at the subsequent Board meeting.

Each committee has in place terms of reference that sets out the roles and responsibilities and the procedural rules that apply to the committee. Under the procedural rules, each committee must be composed of at least three members, a majority of independent directors and have an independent Chairman. The Audit & Risk committee is made up of only independent non-executive Directors in line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya.

A summary of the role of the current committees, current members and key activities undertaken during the year 2021 are set out below.

Audit & Risk

The purpose of the committee is to provide a structured, systematic oversight of the institution's governance, risk management, and internal control practices. The committee assists the board and management by providing advice and guidance on the adequacy of the institution's initiatives for:

- Values and ethics
- Governance structure
- Risk management
- Internal control framework
- Oversight of the internal audit activity, external auditors, and other providers of assurance
- Financial statements and public accountability reporting

In line with its mandate, the committee reviewed the unaudited and audited financial statements for the full year 2021 and ensured that the same was ultimately approved by the Board. The committee further reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year in line with the approved audit plan.

The committee held sessions with PwC, the external auditor, to receive the auditor's independent report and assurance on the financial statements.

During the year, the committee reviewed and approved various policies. The committee further received and considered reports on the level of compliance with AML/CFT regulatory requirements. The committee further reviewed ICAAP for the entire Group ensuring all business risk were identified and the Group had sufficient capital to cover the identified risks.

The committee reviewed the quarterly risk management reports presented by the Chief Risk Officer.

Anne Eriksson **(Chairman)** | Georgina Malombe | Dr. Obuya Bagaka | Alice Kirenge

Human Resources & Governance

This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews.

During the year, the committee jointly with the SIT Committee recommended the review of the organization redesign of various business units to the board for approval in support of the implementation of the new organization structure that came into effect from 1 January 2021.

In line with its mandate, the Committee reviewed the senior management performance for the year and considered an annual staff salary review and an award of an exgratia payment in recognition of staff performance.

The committee reviewed overall succession plan within the organisation and considered proposals for personal development plans to allow for career planning. The committee considered and recommended the filling of senior management roles. The committee reviewed and recommended various HR policies to the Audit and Risk Committee for approval.

John Nyerere **(Chairman)** | Lawrence Njiru | Ahmed Mohamed | Alice Kirenge | Joshua Oigara

Corporate Governance

Nomination Committee

The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.

During the year, the committee reviewed the Board succession plans for the Group as well as the skills matrix for the Board and its subsidiaries.
The committee identified and nominated one director for approval by the Board to fill in a casual vacancy.

Andrew W. Kairu **(Chairman)** | John Nyerere | Lawrence Njiru | Ahmed Mohamed | Alice Kirenge | Joshua Oigara

Strategy & IT Committee

The purpose of the committee is to assist the Board in meeting its responsibilities by ensuring the adequacy and effectiveness of the Company's strategic plans, significant investment decisions, strategic development plans and financial budgets. Ensuring also that Group's IT governance supports effective and efficient management of IT risks and resources to facilitate the achievement of the Group's strategic objectives and compliance with regulatory requirements.

The Committee reviewed the performance of the Group against the set strategy. The Committee further reviewed the proposed 2022 strategic initiatives, financial plans and budgets proposed by management.

The committee received and considered reports on the performance of the Groups Information Technology systems and the progress in improved uptime and availability.

The committee supported the board in overseeing the finalization of the acquisition of BPR Rwanda and the commencement of the integration following the completion of the acquisition by KCB Group.

Eng. Stanley Kamau **(Chairman)** | John Nyerere | Anne Eriksson | Ahmed Mohamed | Dr. Obuya Bagaka | Joshua Oigara

Oversight Committee

The purpose of the Committee is to ensure that the KCB Group Board has total and complete oversight of the subsidiaries.

The committee reviewed large advances for amounts above KShs. 1 billion by the subsidiaries of the Group as well as procurement by subsidiaries where the expenditure exceeded KShs. 100 million.
The committee considered the level of compliance by the organisation to the code of conduct for Issuers of Securities to the Public, 2013 as well as the mandated reporting to the Capital Markets Authority in line with the requirements of the code.
The committee further considered various policies and recommended the same for approval by the Audit and Risk committee.

Lawrence Njiru **(Chairman)** | Eng. Stanley Kamau | Georgina Malombe | Dr. Obuya Bagaka | Joshua Oigara

Corporate Governance

	Board	Audit & Risk	Strategy & IT	Oversight	Human Resources & Governance	Nominations
Number of meetings	**7**	**7**	**7**	**5**	**9**	**4**
Andrew W. Kairu	7	-	-	-	-	4
C.S. National Treasury (Alternate – Eng. Stanley Kamau)	5	-	7	3	4	-
Tom Ipomai[1]	4	4	-	5	1	2
Georgina Malombe	6	7	1	5	-	-
John Nyerere	3	-	3	-	8	3
Lawrence Njiru	5	-	1	5	9	4
Anne Eriksson	7	7	7	-	4	-
Ahmed Mohamed	7	-	7	-	9	4
Dr. Obuya Bagaka	6	7	7	5	4	-
Alice Kirenge [2]	1	1	-	-	-	1
Joshua Oigara	7	-	6	5	7	3
Lawrence Kimathi	7	-	-	-	-	-

(1) Retired from the board on 8 July 2021.

(2) Appointed to the board on 10 November 2021.

Risk Management Governance

Risk is an inherent part of the KCB Group's business, and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance.

This is achieved through the Risk Management Framework. The Group is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities.

The Board oversees the risk management strategy and framework taking into account the risk appetite, prudential capital requirements and strategic and business priorities of the Group. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

The following Board committees assist the Board in the oversight of risk:

- **Audit and Risk Committee:** In relation to risk appetite, risk management strategy, financial reporting and taxation risk.
- **Human Resources and Governance Committee:** In relation to remuneration risk.

At the banking subsidiary level, the Credit Committee reviews issues relating to credit risk appetite and credit risk management strategy

The following management committees also assist in relation to risk management:
- Executive Committee
- Operational Risk Committee
- Asset and Liability Management Committee
- Management Credit Risk Committee

Risk Management Framework

The Group's risk management function has designed and oversees a Risk Management Framework to allow the Group to identify, measure and manage risks within a Board-approved risk appetite.

The Risk Management Framework covers all systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. This Framework is regularly reviewed in light of emerging risks arising from the changing business environment, better practice approaches and regulatory expectations.

Risk Management

The Bank's business activity involves management of financial and non-financial risks. The key financial risks managed by the Bank are as follows: Credit risks, which are integral to the Bank's core business, as well as market and liquidity risks. In addition to financial risks, the Bank's activity poses non-financial risks, the management of which is a necessary precondition to meeting the Group's ongoing and long-term goals. These risks include operational risks, such as technological and cyber risks, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, environmental risk, conduct risk, and macroeconomic risk. KCB's risk management strategy is to maintain the Group's stability and support the achievement of its business objectives. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Group's business activity. The risk management framework includes mechanisms for identifying and estimating risks, defining the corporate structure and areas of responsibility for managing risk as well as putting in place adequate control and reporting mechanisms. KCB continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

Risk Management function supports the Board in formulating the risk appetite, strategies, policies, and limits. It provides review, oversight and support functions throughout KCB on risk-related items.

1. Risk Assessment and Management

The Bank routinely identifies risks so as to systematically and objectively evaluate its risk profile. This helps address major current or emerging threats to the business plan and strategic objectives. The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Taking measured risks is core to KCB's business.

Risks are captured and measured using consistent methodologies and expressed either qualitatively or quantitatively against the defined overall risk appetite as well as the specific limits or triggers. The measurement of risks includes the application of stress testing and scenario analysis and considers whether relevant controls are in place before risks are incurred.

In quantifying risk, the Bank generally endeavors to aggregate risks at the entity level or the Group as a whole. Accordingly, risk quantification and measurement are performed consistently at all operating entities in KCB, to the extent possible based on appropriate, accepted methods and models. A range of tools or measurement methods are used, including expert assessments to examine exposures from different perspectives.

Where thresholds are breached, clear actions are put in place including time frames required to resolve the breaches to bring risk within acceptable tolerance levels. All key controls are recorded and assessed on a regular basis, in response to triggers. Control assessments consider both the adequacy of the design and operating effectiveness of controls. Where a control is not effective, the root cause is established, and action plans implemented to improve control design or performance. Control effectiveness against all inherent risks is reported and monitored.

2. Risk Monitoring and Reporting

KCB actively monitors the risk control measures by following the development of the risks and their risk levels. Risk reporting provides senior management with the information they need to manage risks.

3. Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to KCB's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses KCB's risk identification, measurement, control, management and mitigation practices, which have direct impact on the Group's residual risk profile.

The board reviews and approves the risk appetite on an annual basis, or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that it is consistent with our Group's strategy, business and regulatory environment and stakeholders' requirements.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures are set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Reports relating to the risk profile as compared to our risk appetite and strategy and the monitoring thereof are presented quarterly to the board. In the event that the desired risk appetite is breached, a predefined escalation governance matrix is applied so these breaches are highlighted to senior management.

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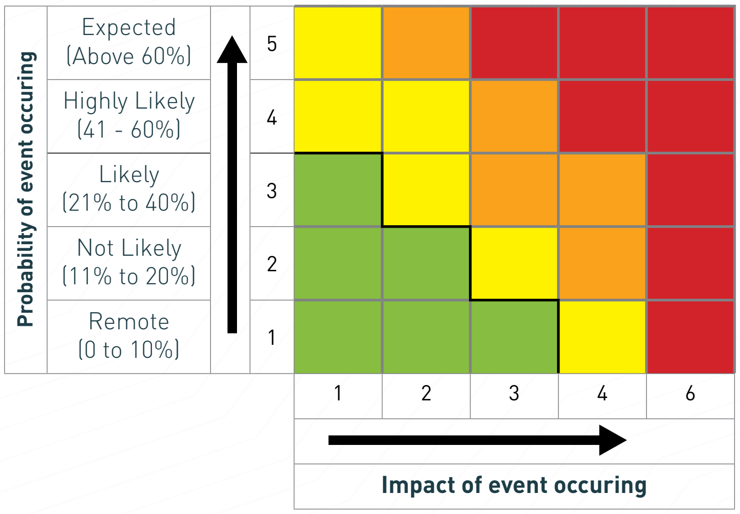
Risk Appetite Framework

The Solid line shows the link appetite - below and left are risks rated at acceptable levels.



The Bank's risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Group and establishes the risk profile in alignment with the Group's business strategy and risk capacity. An effective risk-appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which Management is expected to operate to realize the business strategy of the Group.

The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite including the status of breaches and remediation plans where applicable is reported to the Board Audit and Risk Committee and the Senior Management Risk Committees.

4. Stress scenarios

KCB undertakes scenario analysis at various levels under a forward-looking approach to help the Group anticipate potential impact on the financial robustness of the Group, both given the existing balance sheet and upon the materialization of business plans and other business intentions.

KCB implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's environment.

Three types of scenarios are examined at the Bank for this purpose: general systemic scenarios applied to the entire Group; reverse scenarios; and single-factor scenarios applied at the level of the sector, transaction, borrower, or portfolio, in certain cases, according to predefined thresholds.

Goals of analysis of stress scenarios:

- Inform the setting of risk appetite by assessing the underlying risks under stress conditions
- Identification of risk concentrations and potential weaknesses in the Bank's portfolio.
- Examination of the effect of strategic decisions of the Bank.
- Integration in the planning process and examination of the effects of the business plan on potential exposures.
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types.
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events.
- Assessment of the materiality of the various risks.
- Examination of the Bank's compliance with its risk appetite and risk capacity.
- Support for the business divisions in understanding the risk map of the various areas of activity and sectors.
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.
- The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set for the realization of the various scenarios.

5. Risk Management Culture

The Group maintains a risk management culture that aids awareness of risk and appropriate behavior and judgment in connection with risk taking in the context of corporate governance, supporting effective risk management, promoting appropriate risk taking, and ensuring that emerging risks or risk taking activities are identified, assessed, escalated, and addressed in a timely manner. Our strong risk culture is based on the principle that all employees are risk managers. It covers all risks to promote socially responsible management that supports long-term sustainability.

The risk management culture embedded at the Group emphasizes the importance of:

- Direct responsibility of all employees for risks that they take within their authority.
- Demonstration of highest levels of integrity, transparency, and proactivity in disclosing and managing all types of risks.

- Ability to identify and assess current and emerging risks, openly discuss these and take prompt actions.
- Achieving a proper balance between risk and reward, subject to the risk appetite.
- Deploying an effective system of controls congruent with the size and complexity of the Bank.
- Providing oversight and challenge and taking decisions in a timely manner.
- The ability of the available tools to measure risks correctly, and the justifications for taking risks.
- Monitoring violation of limits and divergence from established policies and applying.
- Proportional disciplinary proceedings, as necessary.

The below diagram depicts the key elements that support our strong risk management culture:

Risk Governance

KCB has a structure of decision-making bodies that cover all significant risks and perform control and oversight of risk decisions. Risk management is performed based on a global view of the Group's activity, with due attention to the activities in subsidiaries with potential significant exposure to the Group. Risks are managed separately by each subsidiary in the Group, according to policies formulated by each subsidiary's board of directors. The subsidiaries are instructed to manage risks based on the strategy and policy of the Group, with adjustments according to the country specific circumstances and or regulations, which are reported to the parent company. The Group manages the various risks while hedging some risks.

Governance is maintained through delegation of authority from the Board to individuals through the management hierarchy. Senior executives are supported where required by a committee-based structure which is designed to support an effective information escalation path and support effective decision-making.

The interaction of the Board and Senior Management governance structures relies upon a culture of transparency and openness that is encouraged across the Group by both the Board and senior management. This ensures that escalated issues are promptly addressed, and remediation plans are initiated where required.

Line managers are directly accountable for identifying and managing risks in their areas of operation, ensuring that business decisions strike an appropriate risk and reward balance and are consistent with the Group's risk appetite.

The Board of Directors is responsible for delineating the overall risk management strategy and supervising the risk management framework of the Group, directly or through the Risk Committee. Main duties of the Board of Directors around risk management are:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the executive committee, headed by the Group CEO, and

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ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.

- Approving methodologies for risk assessment and control, and for the allocation of capital in respect of risks.

- Supervising and monitoring the implementation of the established risk-management policy; examining the actual risk profile, including at the level of the Group; and examining the processes and actions that the Bank must apply to comply with all regulatory directives concerning risk management.

The Risk Division also operates several management committees, chaired by the Group Chief Executive Officer:

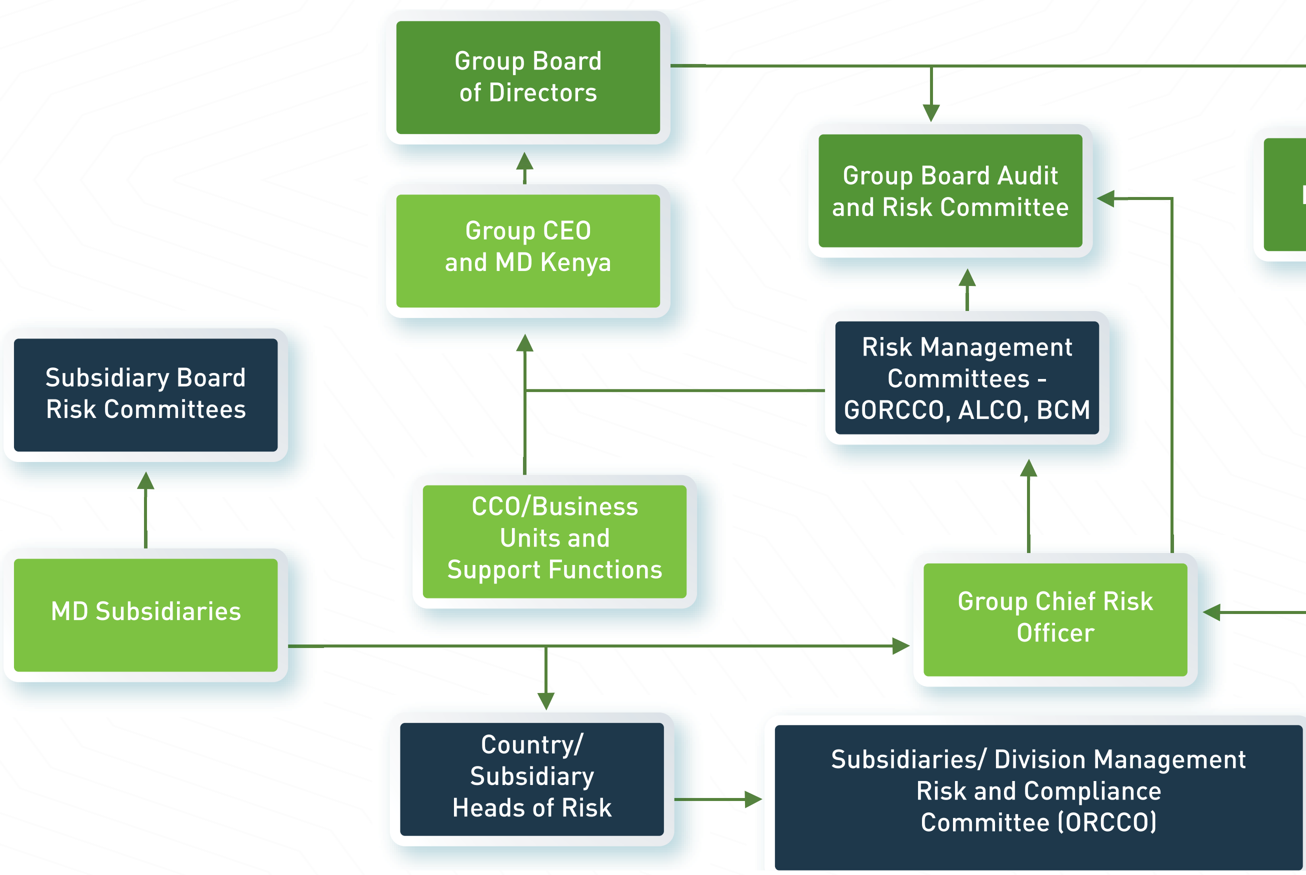
- **Group Operation Risk and Compliance Committee (GORCCO) –** responsible for reviewing risk and compliance issues to ensure all material risks inherent in the activities of the Group are identified and managed in accordance with the risk appetite.

- **Group Assets and Liabilities Committee (ALCO) –** reviews pricing of assets and liabilities to ensure loan mix and yields are optimized, funding costs minimized, while keeping the balance sheet structure consistent with the current asset-liability strategy of the Group.

- **Group Business Continuity Management Committee –** is a cross-functional team of key stakeholders which includes the Senior Managers with key support roles and the appropriate Business owners of critical functions, who together have the responsibility for the overall management of the business continuity function on a day-to day basis.

Group Risk Management Organizational structure

The below diagram depicts the Group Risk management structure.



Three lines of defense model

Effective risk management requires firm-wide risk governance. KCB's risk and control structure is based on the three lines of defense model. Each line has a specific role and defined responsibilities, with the execution of tasks being distinct from the control of these same tasks. The three lines work closely together to identify, assess, and mitigate risks.

1. The **first line** of defense includes the business units within the divisions, including support and operational divisions, that create or take risks, as well as the internal control units within the divisions that provide internal control over the risk creators and risk takers. The management of the business lines have primary responsibility for risk decisions, that is identifying, measuring, monitoring, and controlling risks within their areas

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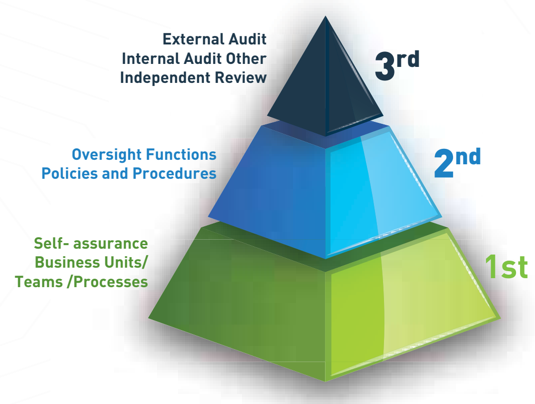
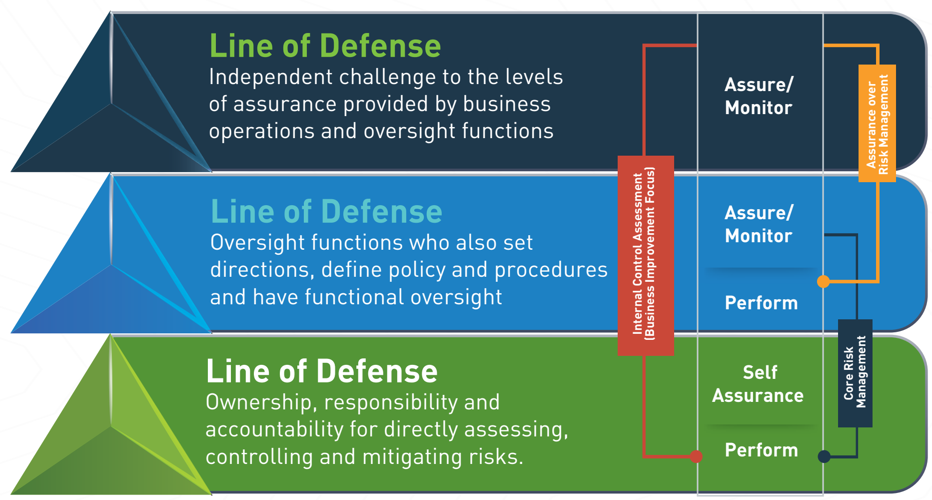
of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms, and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

2. The **second line** of defense consists of the control units at the Risk Management Division, which is independent of the business divisions. This line is responsible for providing oversight and independent constructive challenge to the effectiveness of risk decisions taken by business management, providing proactive advice and guidance, reviewing, challenging, and reporting on the risk profile of the Group and ensuring that mitigating actions are appropriate.

3. The **third line** of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and ensuring that the instructions of the Board of Directors and senior management are implemented and making recommendations for the reduction of risks through improved controls.

Our Three Lines of Defense





Our current risk priorities

This section describes the specific risks within our material risk types where the Board and the Executive Leadership Team focus their efforts. It includes a mix of existing and emerging risks that could materially impact our ability to serve our customers or deliver on our strategy.

Cyber security

Cyberattacks are a global threat that continue to grow, especially in light of the COVID-19 crisis and its negative effect on the financial industry and society. As cybersecurity risks develop rapidly, the Group focuses continuously on its control environment to proactively manage these risks.

Key mitigation actions taken:

- Implementation of a Data protection and privacy policy including a data management programme focusing on strengthening our Data Management Framework across the Group. This involves enhancing our methodology, architecture, tools, standards, and procedures across all business areas, to ensure the quality and integrity of data throughout its lifecycle. As part of this work, we are prioritizing the data management practices for the critical data elements across the Group.
- A cyber security programme is in place to enhance the Bank's cyber defenses against a continually increasing threat environment. This includes focus on enhanced detection and monitoring infrastructure, as well as security configuration and vulnerability management capabilities.
- We also collaborate with a range of government, community, and industry bodies to strengthen system-level resilience and to reduce the possibility of cyber-attacks and the impact of fraud and scams on the community.

Regulatory compliance risk environment

- There has been a continued supervisory and regulatory focus on AML/CFT, consumer protection and resilience of banks to economic shocks. Banks have had to make significant efforts to respond to these increasing demands so as to mitigate against regulatory actions for noncompliance. To this regard, the Group continues to uphold current and new regulatory requirements in its undertakings and has no appetite for breaches in laws and regulations.

Key actions we are taking:

- We closely monitor regulatory developments to ensure new regulatory requirements, laws or regulations are implemented in a timely manner.
- We scan our local, regional, and global environment to keep abreast of emerging regulatory agenda to ensure adequate preparedness for appropriate response.
- We continue to invest significant

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resources to improve our compliance systems and controls and enhance capabilities to continually comply with new requirements.

- We continue to embed a strong compliance culture and desired behaviors through training and awareness to both internal and external stakeholders as appropriate.
- Regular compliance programmes with remedial actions where any gaps are noted.
- We continue to ensure that regulatory ratios and limits are adhered to.

Macroeconomic environment

- KCB's business performance is closely linked to the performance of the regional economies, which in turn are impacted by events in the regional and global economy. The COVID-19 pandemic resulted in suppressed economic performance, predominantly in service industries. Credit growth slowed in several sectors, and customer repayment abilities continued to be impacted by the slow recoveries.

Key actions we are taking:

- The Bank has the backing of a strong balance sheet with a strong deposit funding, adequate liquidity, and strong capital.
- We undertake regular stress tests to understand how our business performs and to prepare alternative action plans for a range of economic scenarios.
- We will continue to support our customers whilst adhering to, and if necessary, revising credit policies, procedures, and tools to support responsible credit decisions in this new environment.
- Continuous review of loan loss provisions considering the impact of COVID -19 on our customers, as we continue to monitor our lending portfolios closely, with detailed stress testing forming the basis for ongoing re-assessments of provisioning levels.

Business resilience

The continuity and resilience of our operations are crucial for serving our customers, upholding community trust, and maintaining our reputation. The inherent uncertainties that continue to prevail with the pandemic including emergence of new variants will continue to impact on staff health, business, and economic recovery. Our crisis management structure proved sufficiently robust and flexible to deal with the ever-changing nature of the continued pandemic by ensuring adequate responses.

Key actions we are taking

- The safety and welfare of our employees is of paramount importance. To manage risks from COVID -19, physical distancing measures have been implemented at branches to protect staff and customers, and we have implemented a range of measures to provide our non-branch team members with the necessary tools and skills to maximize productivity in a remote working environment.
- We monitor the health of our systems and perform contingency planning for disruptions to critical systems and processes.
- We are driving greater agility and alignment in our supplier partnerships to ensure we effectively mitigate risks across the supply chain.
- Our supplier initiatives are driving greater consistency and rigor over supplier governance and performance monitoring, especially over partners supporting critical systems, or the infrastructure on which those systems rely.
- Strengthened disciplined risk management, recovery, and collection plans.
- Close monitoring of liquidity risk profile, contingency plans and macroeconomic dynamics.
- Continuous monitoring of the political and social situation in the countries where we hold material exposures including adjustment of limits and exposures to our risk appetite where necessary.

Climate-related risks

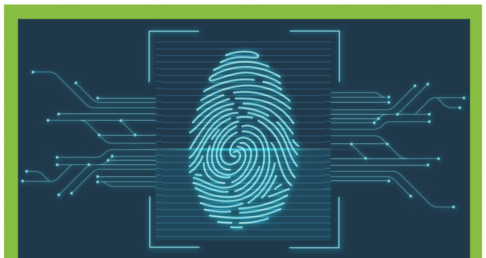
Climate change has continued to gain more focus with governments, international organizations, and regulators requiring assessment of the impact of climate change on the financial sector and demanding greater transparency and reporting of the risks it might pose to banks performance, resilience, and business strategies. In October 2021, the Central Bank of Kenya issued a guidance note on climate – related Risk Management to commercial banks and mortgage finance companies.

Climate change is part of our sustainability policy. The Group is continually updating our Enterprise Risk management framework to ensure the identification, assessment, management and reporting of climate change-related risks which helps increase our understanding of the risks and opportunities in our portfolios and enhances our forward-looking analysis. The Group will in 2022 establish a roadmap to integrate environmental considerations in the banks' business model in compliance with the Central Bank of Kenya guidance.

The Group will in 2022 establish a roadmap to integrate environmental considerations in the bank's business model in compliance with the Central Bank of Kenya guidance.

Our key mitigating actions include:

- Embedding Responsible Banking principles in our strategy, policies, and products.
- Working together with customers to support them in their transition to reduce carbon emissions.
- Supporting sustainable growth and the transition to a low-carbon economy by financing renewable energy and smart infrastructures, always mindful of social and environmental risks and rewards.



Personal Data Protection

KCB uses a number of systems and applications to support key business processes and operations to best focus on our customers and their needs. The reconciliation of multiple data sources and the protection of customer data are regarded as crucial processes in KCB, and further spurred by its strategic focus on digital service delivery, technology and innovation. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. KCB is also subject to increasing regulatory requirements including Kenya and Uganda data protection laws.

KCB is committed to collecting, storing, and processing personal data safely and securely. The Group continues to enhance Data governance tools, standards, and procedures to meet these expectations across the Group.

The Group has adopted an approach based on compliance with both local and global data protection regulations with each subsidiary aligning with existing in-country legislative requirements. In addition, the below additional measures:

- Implementation of the Data Protection and Privacy policy, and framework which defines the bank's data protection and privacy requirements to ensure that processing of personal data/ sensitive personal data shall be done in a manner that protects the privacy of the Bank's customers, employees, vendors, Third parties or other stakeholders.
- Data Privacy assessment was undertaken in 2021 to identify any existing gaps and with a view of enhancing data privacy controls.
- Ongoing implementation and embedment of data privacy principles within the bank's processes.
- Ongoing awareness to staff on the implications of privacy laws for the Bank.
- Embedding data ethics principles into the data lifecycle.

Management of Principal Risks

A. Capital

Internal Capital Adequacy Assessment Process (ICAAP)

Within the second pillar, the Bank is required to carry out an Internal Capital Adequacy Assessment Process (ICAAP) to assess capital adequacy and establish a strategy for ensuring capital adequacy. This process is aimed at ensuring an adequate level of capital in order to support all risks inherent in the Bank's activity, in accordance with the risk appetite policy established by the Board of Directors, and in accordance with future plans for development and growth, while developing and applying appropriate risk management processes.

The Group has undertaken various initiatives to achieve compliance with CBK ICAAP guidance notes, regulatory prudential guidelines, and risk management guidelines. The Group's ICAAP provides for identification, quantification and reporting of all the material risks. It establishes internal capital adequacy goals and a process for internal control, review, and audits. A detailed framework for stress testing risks, such as Credit related risks, Credit Concentration Risk, Forex Risk, Liquidity Risk, Interest Rate Risk in the Banking Book, Operational Risk etc., has been developed by the Group. The results indicate that the Group's position remains moderate under scenarios of low and medium stress conditions. The Group submitted its ICAAP document for 2020 to the Central Bank of Kenya in April 2021. In this document, the Bank evaluated risks and the potential effect of its asset mix on its risk profile, and set internal capital objectives based on these evaluations, taking into consideration the supervisory requirements and the prevailing operating environment. All banking subsidiaries continue to carry out the ICAAP review annually.

Considering the risk profile and operating environment of KCB, the material risks to which the Group is exposed to are mentioned in the table below:

	Risk Type	Assessment Approach	Capital Impact
Pillar 1			
1	Credit Risk	Standardized Approach	Yes
2	Market Risk	Standardized Approach	Yes
3	Operational Risk	Basic Indicator Approach	Yes
Pillar 2			
4	Concentration Risk	HHI Methodology and Excess over Limits	Yes
6	Liquidity Risk	Ratio Analysis & Cash Flow Gap Analysis	No
7	IRRBB Risk	Repricing Gap Statement, EVE	Yes
8	Strategic Risk	Scorecard, ROE deviations, Strategic plan objectives risk analysis	No
9	Reputational Risk	Reputation Events, Social Media management	No
10	Compliance Risk	Internal and Regulatory compliance monitoring and validation	No
11	Information Communication and Technology Risk	Incident monitoring	No
12	Country Risk	Limit breaches	No
13	Pension Risk	Fund deficit/ surplus analysis	No

Corporate Governance

Planning and management of capital by the Group

We pursue an active approach to capital management through ongoing review, and Board approval of the level and composition of our capital base against key policy objectives.

Capital planning is an annual process with a rolling planning horizon of three years. Capital management is performed routinely, as an integral part of the Group's strategic and financial plan. Capital planning at the Group is based on the workplan of the Group and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Group also routinely monitors actual results as compared to planning, and the gaps between result and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets.

The policy of the Group is to maintain capital adequacy at a level higher than the minimum ratio required by the Regulator, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Group also examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of such a stress event.

B. Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures** – Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (market value) of derivatives and financial instruments.
- **Off-balance sheet exposures** – Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit and unutilized credit facilities.

  Credit Concentration risk may also arise from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Management of credit risks

The Group manages credit risk in accordance with its Credit Policy, Credit Risk Appetite and related governing documents. The goal of credit risk management is to ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The Bank's credit risk management framework and policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio across different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions.

The policy and practice of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Group conducts industry-level economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Group's business objectives are determined in accordance with these studies.

Credit review processes identify, monitor, mitigate and report to the responsible manager/function on negative signs related to borrowers.

Credit risk management is based on the following principles:

- **Independence –** This ensures proper corporate governance, prevent conflicts of interest, and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority –** The Group has a hierarchy of authority that outlines a sequence of credit authorizations according to the level of debt of the borrower or group, the risk rating and problematic debt classifications allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committee.
- **Credit policies and procedures –** The Board of Directors of the Group approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Group. Limits are also imposed on the maximum exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.
- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level according to materiality thresholds. The Credit and Risk Divisions coordinate reports to the Senior Management and Board of Directors regarding trends

and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various lines of defense, on the other hand, the identification of risk in new credit products is guided by the new products and initiatives risk assessment policy which specifies the processes to be followed for each new product at the Bank to identify all risks inherent in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Bank's assessment, may default on their obligations to the Bank. The Credit, Retail and Corporate Banking Departments determine whether the specific customers should be included in the Bank's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed monthly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the debt collection unit.

Impact of the coronavirus crisis

The Bank continued to extend assistance to customers who encountered a temporary crisis and whom the Bank believes will overcome the crisis. In this context, the effects of the crisis are considered, and customers are scrutinized in depth. Some of the actions included:

- Proactive engagement of borrowers to ensure that well-tailored support is provided to alleviate the impact of COVID-19, while maintaining the effectiveness of debt collection activities.
- Proactive monitoring of credit portfolio concentrations with extra emphasis on groups and/or sectors severely affected by the pandemic.
- Granting payment deferrals on outstanding loans within our geographies, under the regulatory guidelines on moratoria on loan repayments issued in light of the COVID-19 crisis along with other regulators statements.
- Enhanced control and reporting framework for loans under moratoria to monitor measures and loan performance before and after the expiration of granted repayment extensions.
- The severity of the pandemic's effects varied significantly in industries. Consequently, KCB set out to identify those that could be more affected to focus credit risk management.

C. Market Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of the Bank's assets and liabilities due to fluctuations in market risk factors such as interest (IRR) and foreign exchange rates (FX risk). The Group's policy is to optimize reward whilst managing its market risk exposures within the risk appetite defined by the Board.

Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Market Risk exposures arising from the trading book are managed by the Treasury department whilst those arising from the non-trading activities are managed through the Asset and Liability Management (ALM) and ICAAP processes. Oversight of market and liquidity risk is provided by the Asset Liability Committee (ALCO).

Market and Liquidity Risk measurement, limit setting, reporting and oversight is conducted by the Market Risk department under the Group Chief Risk Officer.

The Market Risk Framework defines the policies that govern KCB's strategy and objectives for Market, Liquidity and Country Risk management and the approach and processes by which KCB achieves those objectives. It establishes Risk Management Processes that result in the identification, assessment, measurement, monitoring and control / mitigation of market, liquidity, and country risks in a consistent manner across KCB Group. It also outlines the risk governance structure and relevant roles and responsibilities, with the ALCO providing key oversight at the management level.

KCB expresses its acceptable level of market, liquidity and country risk through risk appetite statements and setting of the respective risk limits. The Group monitors risk through the various limits including, but not limited to exposure, risk (PV01) and stop loss limits. The Group has a limit approval matrix that allows the Business units to take risk in a controlled manner. The respective limits are monitored on a daily / weekly / monthly / quarterly basis, keeping a record for all breaches as well as the breach authorization.

Liquidity risk is monitored through the Liquidity and Loan to Deposit Ratio limits as well as the review of the funding analysis looking at inter bank borrowing and deposit concentration. There is also a Contingency Funding Plan in place.

The Group also undertakes market risk stress testing to:

- Assess the adequacy of the Group's financial resources for periods of severe stress and develop market-risk-related contingency plans.
- Promote risk identification and add further insight into the need for adjusting existing or adding new limits.
- Supplement quality assurance for market risk management practices.

Corporate Governance

D. Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events or legal risk but excluding strategic and reputation risk. The Group manages Operational Risk via a comprehensive risk management framework, and is supported by an established network of systems, policies, standards, and procedures. The Operational Risk Management Framework assist the Group in integrating risk management into significant activities and functions. As part of this framework, KCB has defined its operational risk appetite and has established a Risk and control assessment process to help units to self-assess on significant operational risks and controls, identify, and address any gaps in the design and/or operating effectiveness of internal controls that mitigate significant operational risks. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Group. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the regulators. A comprehensive mapping process of operational risks in all units of the Group is performed regularly.

Operational Risk Management process in KCB consists of the following components:

- Identification.
- Assessment.
- Monitoring.
- Controlling / Mitigating of Operational risks
- Reporting
- Training and Awareness

The goals of operational risk management are:

- To ensure effective oversight and management of operational risks in all units of the Group, including risk ownership and decision making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital for operational risks.

Additional related activities:

- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control concept within the Group. Within this framework, committees convene, and a periodic process is conducted to evaluate the effectiveness of controls.
- An operational risk management system has been implemented to automate areas of collection of information regarding operational risk events, loss data management, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reporting.
- Rollout of new products or initiatives are risk assessed prior to launch.
- Performance of independent assessments of the risk and control profiles to enhance oversight over risk management activities.
- Improving processes to determine, identify and assess risk references and standard controls with a view to strengthening and standardizing our risk and control environment

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the functional managers and the Managing Directors of subsidiaries in the Group. These activities are overseen by the Operational Risk Department within Risk Division. Operational risk management activity is supervised and directed by three forums:

- The Board Risk Management Committee.
- The Management Committee – Group Operational Risk and Compliance Committee, headed by the Group CEO.
- The Divisional/ Subsidiary Operational Risk Management and Compliance Committee.

Business Continuity

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity management plan. The Bank's preparedness is based on detailed action plans, working procedures, periodic tests, and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank regularly conducts a review of Business Continuity Management Framework, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency through the Business Impact analysis, and updates its action plans based on the prevalent methodologies globally.

The Group continues to enhance its existing approach to business continuity to mitigate and manage the emerging risks that the Group may be exposed to.

Its main objectives are:

- Safeguarding staff safety in a contingency situation.
- Guaranteeing that critical functions are performed, and service is delivered to our customer.
- Fulfilling our obligations towards employees, customers, shareholders, and other stakeholders.
- Complying with regulations.
- Minimizing potential losses to the Group as well as the impact on business activities.
- Protecting our brand image, credibility, and trust.

E. Information Technology Risk

IT systems and infrastructures plays a critical role in enabling the achievement of the Groups strategic objectives and operational activities. ICT risk arises from inadequate information technology/ systems, inadequate ICT policy and strategy or inadequate use of the Group's information and communication technology.

The Group maintains an Information Risk Policy which governs the protection of KCB's information assets from all threats, whether internal or external, deliberate, or accidental, to ensure business continuity, minimize business damage and maximize return on investments and business opportunities. The objective of the policy is to protect the Group, its staff, customers and other third parties from information risks where the likelihood of occurrence and the consequences are significant. The policy also provides a consistent risk management framework in which information risks are identified, considered, and addressed. In addition, the Information Security policy governs the management and security of data and the information systems that handle these data. KCB understands that Information is an important business asset and to be suitably protected from a growing variety of threats and vulnerabilities to ensure business continuity, minimize business risk, and maximize return on investments and business opportunities.

The Group's information assets are protected against current and emerging sources of threats including but not limited to:

- Cybercrime,
- Computer-assisted fraud,
- Espionage, sabotage, and vandalism,
- Natural disaster, fire etc.
- Malicious software, computer hacking, and denial of service attack.

F. Cyber Risk

Cybersecurity concerns continue to manifest across the world with hackers continuing to enhance their attack capabilities. This trend is expected to continue in coming years, and financial sector will remain a primary target. Given KCB's increasing reliance and adoption of digital systems, cyber threats make cyber security one of the Group's top risks. Therefore, the Group endeavors to achieve cyber resilience that can withstand, detect, and rapidly react to cyberattacks, while constantly evolving and improving its defenses.

Cybersecurity is built into our culture to foster crucial behaviors that protect the Group and our customers' information. This includes provision of training to all staff, including rolling out mandatory cybersecurity training course, and awareness initiatives on digital channels help customers to stay safe online.

The Group has also invested in extensive resources (both human and technological) to strengthen its information security and cyber defense system, to cope with the sophistication of cyber threats. The Group's defense framework consists of layers of protection using advanced technologies. The Group operates cyber defense processes to minimize the risk of system penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of data. The Group continually works to identify threats, risks, and enhance the effectiveness of defensive framework accordingly.

The Group has in place a Cybersecurity policy and a Cybersecurity Incident Response Plan that ensures it is prepared to manage cyber incidents in an effective and efficient manner. The Plan establishes incident handling, response, and recovery capabilities. It determines the appropriate response for cybersecurity incidents that arise, and is applicable to all staff, management and third parties such as consultants, contractors, and service providers. The plan also covers all supporting applications, processes and systems and any other cyber facing assets and information as well as establishing a team and methodology to handle such incidents.

The Group continues to enhance cyber security capabilities across its entities and continually evaluate potential exposures from prevalent attack types to ensure that controls are strengthened to minimize the likelihood and impact of such attacks.

The key objectives of the plan include:

- Determining the potential threats and vulnerabilities emanating from the Bank's cybersecurity ecosystem.
- Ensuring decisions to handle cybersecurity incidents in a more effective and appropriate manner are made as fast as possible.
- Eliminate cyber security threats in a secure and timely manner.
- Coordinating dissemination of relevant information to relevant stakeholders through appropriate channels.
- Foster leadership and collaboration in relation to initiatives that would safeguard the banking information systems.

G. Fraud Risk

Fraud includes all those activities involving dishonesty and deception that can drain value from the business, directly or indirectly, whether or not there is personal benefit.

The Group Fraud Risk Policy/framework covers both internal and external frauds, and aims to reinforce the KCB values of honesty, integrity, and ethics and in this regard has a "Zero Tolerance" approach to fraud and corruption. KCB is committed to ensuring that a fraud free environment exists, and high ethical standards are upheld in the organization.

The key objectives of Fraud Risk framework are:

- Development of a suitable environment for fraud management.
- Maximum deterrence of fraud.
- Professional investigation of detected fraud.
- Effective sanctions, including legal action against people committing fraud.
- Effective methods for seeking redress in respect of money defrauded.
- Raising awareness of fraud and its prevention within the Group and to give guidance on reporting of suspected fraud and how the investigations will be conducted.

  KCB is committed and continue to build capability for effective response to fraud risks having made several enhancements to our systems and controls including the implementation of the Fraud Management System. The Fraud Management System has enhanced fraud management through automated detection of fraud across banking channels by enabling identification of unusual behavior and increase in operational efficiency by augmenting fraud investigation efforts.

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The bank has also undertaken a series of initiatives such as fraud risk training and awareness, underpinned by zero tolerance to fraud culture agenda.

All Stakeholders of the Group have a responsibility in respect to the fight against fraud and other illegal acts. It is everybody's responsibility to prevent and report fraud, misappropriations, and other inappropriate conduct within their knowledge and ability. Hence, the employees are continuously trained on fraud awareness in their respective areas of work.

KCB Group has built in mandatory checks into its processes/operations as fraud prevention measures. There is a management level Disciplinary Committee which reviews fraud cases and applies the consequence management framework.

H. Compliance Risk

KCB Group minimizes compliance uncertainty by ensuring that the activities of the Group and its staff are conducted in accordance with all laws, regulations, codes of conduct and standards of good practice applicable in all the jurisdictions it operates in, as well as conforming to internal policies and standards of operation, and with the highest ethical standard. This is achieved through a compliance and ethics framework that supports a robust compliance culture which is based on the highest standards of ethical business practice. The compliance framework defines the compliance universe and has deployed various tools and processes for assessing key compliance risks, and the necessary mitigation.

The Compliance Function reports to the Group Chief Risk Officer. In KCB Bank Kenya, the function headed by the Head of Compliance & Ethics reports to the Group Chief Risk Officer, who maintains oversight on Compliance across all Subsidiaries. The Compliance Office provides Group Shared Services support on policies and fit-for-purpose functional maintenance of the systems used. Heads of Risk and Compliance in KCB Banking Subsidiaries oversight Compliance and Ethics in each Subsidiary.

Across Branches, Managers Service Quality and Compliance provide the necessary Compliance assurance, while individual Business units deploy Compliance Managers discharging compliance obligations. KCB holds up business areas as the first line of defense on compliance matters, with the central Compliance actively promoting awareness, guidance, and monitoring for Compliance assurance.

I. AML /CFT Compliance

The Group remains committed to strictly upholding and complying with all rules and standards as well as any other provisions which, apply to the Group with regard to Anti-Money Laundering (AML) and Combating the Financing of terrorism (CFT). The Group through its AML, KYC and Sanctions policies has implemented a robust AML and CFT compliance programme aligned to international best-practice which applies to its branches and subsidiaries. Each Subsidiary maintains an independent Money Laundering Reporting Officer (MLRO).

The Group's AML/CFT Programme is benchmarked to international best practice, while maintaining compliance with the Regulatory requirements in the countries of operation.

All employees are required to adhere to the AML/CFT policies and programme, which provide that no customer relationship is worth compromising the Groups commitment to AML/CFT. The Group has put in place robust IT systems, processes, and procedures to prevent persons engaged in money laundering, terror financing, fraud, tax offences, or other financial crimes, from exploiting the Group's network, products and/or services.

Our anti-money laundering (AML) and know-your-client (KYC) processes and controls aim at preventing misuse of our products and services to commit financial crime. We continually seek to enhance the efficacy of our internal control environment and improve our infrastructure to new regulatory requirements and to close any identified gaps.

J. Reputational Risk

Reputation risk is the risk that an action, inaction, transaction, investment, or event will reduce trust in KCB's integrity and competence by clients, counterparties, investors, regulators, employees, or the public. Reputation risk arises where there are differences between these stakeholders' current and emerging perceptions, beliefs, and expectations relative to our current and planned activities, performance, and behaviors.

The Group values its good reputation and protects its Brand through monitoring Reputational risks and their drivers, as well as through continuous media monitoring. All staff and other parties working for or on behalf of the Group are called upon to uphold Ethical business conduct in all their business dealings. In addition, annual ethics training is provided to all staff, and employees are encouraged to freely raise any ethical concerns through established channels, either internally, or anonymously through external channels.

We have a Framework in place covering the way we manage reputation risk including the setting of risk appetite and roles and responsibilities for risk identification, measurement, and management, monitoring, and reporting.

K. Regulatory Compliance

Whilst the Group has a zero-risk appetite for material regulatory breaches or material legal incidents, the Group remains exposed to them, driven by new legislations and regulations that continue to be rolled out which in each case needs to be interpreted, implemented and embedded into day-to-day operational and business practices across the Group.

The Group continues to keep abreast with the constantly changing regulatory environment. Local and international Regulations and guidelines with significant impact are monitored, and guidance issued to business on interpretation and adoption to ensure that the Group remains in compliance with the requirements. The Group shall continually adapt to the rapidly changing regulatory environment and ensure compliance while reducing exposure to regulatory risk.

Business units identify, assess, and implement policy and regulatory requirements and establish controls, processes, procedures, and resources to ensure appropriate governance and compliance. The Risk and Legal functions provide oversight and proactive support to the business in identifying and managing regulatory and legal issues.

L. Legal Risk

This represents potential exposures from litigation, government investigations and other regulatory enforcement risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry. Any finding or claim of substantial legal liability against the bank could have a material adverse effect on our business, financial condition and could also cause significant reputational risk. The Group has put in place frameworks to ensure that any activities or incidents that may result in legal risk are identified, assessed, monitored, and addressed effectively and in a timely manner. Further, the compliance framework ensures that effective oversight and controls are in place to ensure compliance with regulatory obligations including consideration of these at the Group and individual subsidiary legal entity level. The Legal services function headed by the Group General Counsel provides oversight and support to the business in identifying and managing legal issue facing the Group.

M. Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g., competitors' actions), the economy, or technology. Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

The strategic plan of the Group is a three-year plan approved by the Board of Directors, and examined and adjusted annually to the prevailing changes in the business environment in the region and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses an examination of the bank's business, the relevant strategic risks, and a comprehensive planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

STAGE 1

Identification of the strategic risks to the Bank in its competitive environment – examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

STAGE 2

Formulation of objectives and high-level work plan, adapted to the business environment and to the strategic trajectory.

STAGE 3

Construction of detailed plans for all areas, examination of scenarios, and establishment of risk indicators. This stage involves determination of themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established. Goals and metrics are established for each map (at the process level and at the level of business results), derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

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N. Conduct Risk

Conduct Risk is the risk of delivering unfair customer outcomes or market integrity resulting from deliberately or unintentionally acting unfairly, inappropriately, or unethically. The Group is exposed to both intentional and unintentional misconduct risks.

Conduct risk is managed with policies, processes and practices aligned to the Risk Management Framework. The Group endeavors to minimize conduct risk through maintaining effective Risk Management Frameworks incorporating a set of Good Conduct Principles and by promoting an appropriate organizational culture.

The Group's ongoing commitment to good customer outcomes sets the tone from the top and supports the development of the right customer-centric culture, strengthening links between actions to support conduct, culture and customer and enabling more effective control management. Key actions undertaken include:

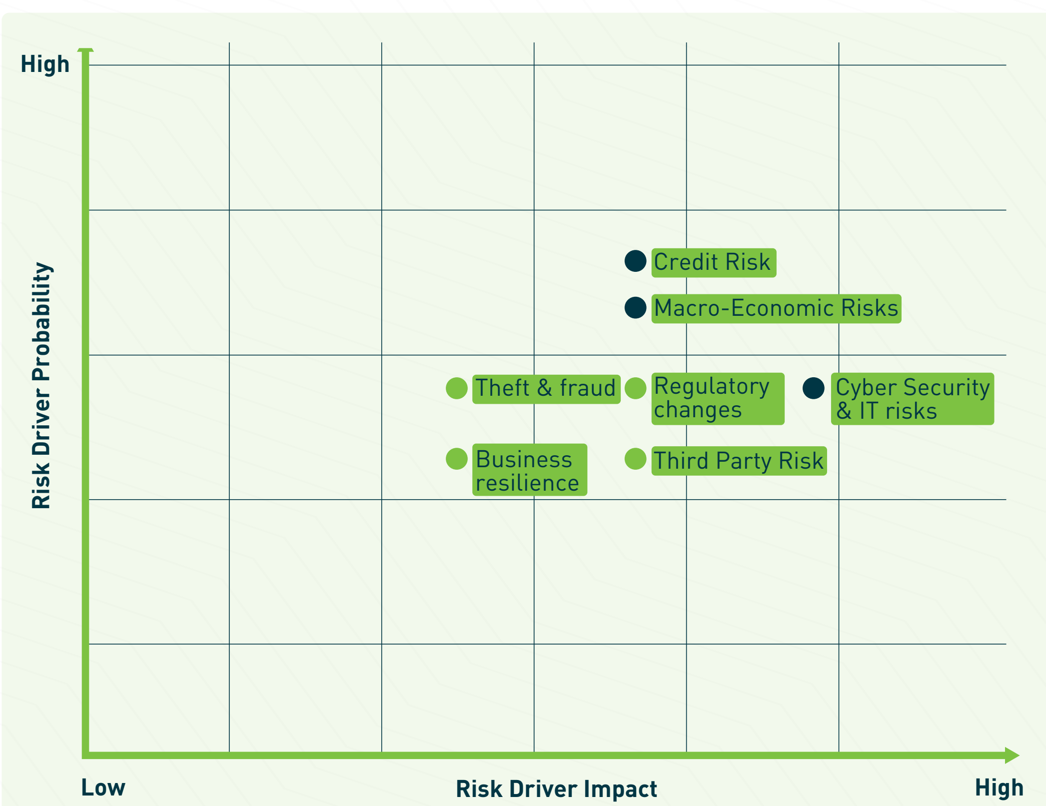
- Policies and procedures in place to ensure appropriate controls and processes that deliver fair customer outcomes, and support market integrity and competition requirements.
- Customer needs considered through customer plans, with integral risk assessments for all new products and initiatives prior to rollout.
- Cultural transformation supported by strong direction and tone from senior executives and the Board
- Enhanced product governance framework to ensure products continue to offer customers fair value, and consistently meet their needs throughout their product life cycle.
- Effective complaints management.
- Ongoing engagement with third parties involved in serving the Group's customers to ensure consistent delivery

Looking ahead

The pandemic continues to persist well into 2022. The hope that vaccinations and widespread population exposure to the Delta variant would be sufficient to subdue COVID has turned out to be elusive with the emergence of new variants such as Omicron. It is however anticipated the global economic recovery that is now underway will endure and ultimately outlast the pandemic. However, there is potential deterioration in loan asset quality as government support measures or stimulus packages extended to business wane or are phased out.

The Group will continue to proactively assess the internal and external environment to identify emerging issues and implement appropriate controls to adequately mitigate potential exposures. The Group will also continue to enhance its risk management frameworks as and when required to ensure resilience as well as remain relevant and effective in the dynamic environment that we operate in.

The Risk Map below shows the key risk drivers that could affect the Group in 2022 along the dimensions of probability and impact. The risk drivers are not to be seen in isolation as they may trigger or reinforce each other.



Internal Controls

The Board has delegated to the Group Audit and Risk Committee (GARC) its responsibility for reviewing the effectiveness of the Group's internal controls.

The Group Board has the overall responsibility for the Group's system of internal control, which includes all material controls including financial, operational and compliance controls and related risk management, and reviewing its effectiveness. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. It is designed to manage risk rather than eliminate risk altogether.

The GARC, regional business Board Audit Committee members and relevant Senior Management undergo audit, financial reporting and governance related trainings annually to ensure that they are up to date with current trends and best practices.

The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee. The Executive Committee is supported in this task by the Internal Audit function. The 12 months rolling audit plan approved by the GARC, ensures that internal controls over all of the operations are all reviewed annually. The risk categories set out in the risk matrix were used as the basis for the process of reviewing the effectiveness of the system of internal controls.

The approach adopted for the development of the 2021 audit plan for the bank was based on residual risk assessment derived from inherent risk assessments and the evaluation of the control environment for each particular auditable business unit. Residual risk which determines the audit need is defined as High (Red), Medium (Amber) and Low (Green). The audit plan approach has also considered the local regulatory expectations and feedback from the Board Audit Committee and Executive Management.

The key risk areas that governed the internal audit scope during the year included the following:

- Credit and Monitoring of Non-Performing Loans
- Information Technology Risks
- Operations, Risk Management and Fraud
- Compliance

Group Internal Audit is a centralized independent assurance function though in line with country specific regulations, each of the regional subsidiaries have put in their own internal audit functions reporting to their respective Board Audit Committees. The Group Internal Audit function provides general oversight of regional audit functions.

In addition, the Group Internal Audit Function provides support to the regional businesses through the review of specific high-risk areas such as credit, technology, treasury, risk management and financial reporting.

The Group has in place internal controls and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure the adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS.

The Executive Committee tracks the remediation of outstanding audit issues monthly across the Group and ensures the auditor's recommendations have been satisfactorily implemented to address the identified risks. The Group Internal Auditor & Audit Director presents key audit findings to the Group Executive Committee on a monthly basis who ensure the issues are fully resolved. Further, on a quarterly basis, the GARC monitors the progress of resolution of identified audit issues and provides guidance.

In summary, the internal audit reviews indicated an improved internal control environment in 2021 compared to 2020 with fewer audit assignments being rated 'unsatisfactory'.

Engagement with Shareholders

The Board recognizes the importance of maintaining transparency and accountability to our shareholders and investors and works to ensure that all shareholders are treated equitably, and their rights are protected.

The Company employs diverse channels and mechanisms to communicate and disseminate information to its various stakeholders, including shareholders. These channels and mechanisms include collection of investor feedback and communication via the investor relations function, financial information on the Company made available on the Company's website and latest results being provided on a quarterly basis in national publications.

KCB Group is committed to giving our shareholders appropriate information and facilities to enable them to exercise their rights effectively. We are also committed to making sure shareholders and the investment community have appropriate information to make investment decisions. The Company seeks to provide shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback.

Communication and Periodic Continuous Disclosure

Key shareholder communication include the Group's Annual Integrated Report, the Group Sustainability Report and full year, half-yearly and quarterly financial results. The Group additionally posts all material information on its website www.kcbgroup.com. Shareholders are encouraged to visit the website for general information about the Group and to be able to view financial reports and results briefing presentations.

The Group additionally releases material information to the Capital Markets Authority and the Nairobi Securities Exchange as well as the Central Bank of Kenya in line with all disclosure requirements in the Capital Markets Act, the Banking Act, the Prudential Guidelines as well as all other relevant regulation. Being cross listed in the region, material information is also released to the securities exchanges in Tanzania, Uganda and Rwanda.

Annual General Meetings

The Group recognizes the importance of shareholder participation in meetings. Shareholders are strongly encouraged to attend and participate in the AGM. The AGM provides an opportunity for shareholders to engage with us in person.

The board has always placed considerable importance on effective communication with its shareholders. It ensures that the rights of shareholders are always protected. Notice of meetings and all statutory notices and information are communicated to shareholders on time. Shareholders who are unable to attend the AGM in person are encouraged to vote on the proposed resolutions by appointing a proxy prior to the AGM.

The Group makes use of the AGM as well as the published annual integrated report as an opportunity to communicate with its shareholders. At the meeting, a reasonable opportunity is allowed for shareholders as a whole to ask questions about or make comments on the management of the Group.

In 2021, due to the impact of the COVID-19 pandemic, the KCB Group held its AGM via virtual means. The use of virtual meeting technology by KCB Group during the AGM held in May 2021 allowed a larger number of shareholders to participate in the AGM regardless of their geographic location.

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17,160 shareholders attended and voted on the resolutions during the AGM compared to 4,905 shareholders who attended the physical meeting held in May 2019.

Shareholders were given an opportunity to submit written questions to KCB Group before the AGM and were also able to participate in the live KCB Group AGM vote and ask questions online. All resolutions were submitted to a poll and the results published in the local dailies within 24 hours following conclusion of the AGM.

Investment Community

KCB Group is committed to engagement with the investment community and consistently shares our story and communicates our strategy. Our investor relations programme includes liaising with institutional investors, brokers, analysts and rating agencies including presentations during our announcement of our annual results. The investor relations team is responsible for drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Group and coordinates roadshows including half-year and full-year results announcements.

The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors. Supported by the Group Chief Executive Officer & Managing Director and the Group Chief Finance Officer, they achieve this through a combination of briefings to analysts and institutional investors.

All shareholders queries, application for registration of transfer of shares of the company, immobilization of shares and dividend queries as well as the collection of share certificates and dividend cheques are handled by the company's appointed shares registrar – Image Registrars Limited. The registrar can be reached at their offices on the **5th Floor, Absa Towers (Formerly, Barclays Plaza), Loita** Street, P. O. Box 9287-00100, Nairobi or through their e-mail address kcbshares@image.co.ke and also through their telephone numbers 0709 170 000, 0724 699 667, 0735 565 666.

Policies and Codes of Conduct

KCB Group maintains and has in place policies and codes of conduct that captures not only our legal obligations, but also the reasonable expectations of our stakeholders, including our customers. These policies apply to all employees and Directors of the KCB Group, and to anyone working on the Group's behalf, including contractors and consultants. The Group adopts zero tolerance to all forms of corruption, bribery and unethical business practice.

Ethical Conduct

Our Code of Ethical Conduct covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioural requirements and where these are not met, there are consequences.

The Group has in place a suite of policies and practices to promote a culture of compliance, honesty and ethical behaviour including in relation to anti-money laundering and counter-terrorism financing, whistle blower protection and conflicts of interest.

Whistle Blowing

KCB Group does not tolerate fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance or questionable accounting or auditing by employees, Directors, customers and contractors. KCB Group is committed to a culture that encourages all people to speak up about issues or conduct that concerns them.

The KCB Group whistle-blower programme encourages the reporting of any wrongdoing in a way that protects and supports whistle-blowers. The programme provides confidential and anonymous communication channels to raise concerns. The confidential and anonymous communications channels are supported and monitored independently by Deloitte details of which are provided below:

Telephone Communication:

Toll free number : **0800 720 990 (Kenya)**
Toll free number : **0800 110 025 (Tanzania)**
International calls : **+27 315 715 795 (Uganda, South Sudan, Rwanda and Burundi)**

E-mail Communication: kcb@tip-offs.com

All people are encouraged to raise any issues involving illegal, unacceptable or inappropriate behaviour or any issue that would have a material impact on the organizations customers, reputation, profitability, governance or regulatory compliance.

There is zero tolerance for any actual or threatened act of reprisal against any whistle-blower and the Group takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour including taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistle-blower.

Restrictions on Insider Trading

In line with the approved KCB Group Insider Dealing Policy, directors, employees and contractors (and their associates) are prohibited from dealing with any securities and other financial products as they possess inside information. They are also prohibited from passing on inside information to others who may use the inside information to trade in the company's securities.

KCB Group has closed periods each quarter prior to the release of the Group's financials during which all related persons, Directors, employees and contractors (and their associates) must not trade in KCB Group Plc. securities.

Directors Remuneration

The Human Resources and Governance Committee of the Board is responsible for setting and administering the non-executive Directors remuneration policy.

The aggregate amount of emoluments paid to Directors for services rendered during the year 2021 is disclosed in Note 39 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

Additional details are provided in the Directors' Remuneration Report at pages 129 to 132 of the Integrated Report.

Board of Directors' Profiles

Name: Andrew W. Kairu
(63 Years)

Designation: Group Chairman

Education and Professional Background:

Andrew holds a Bachelor of Commerce degree from University of Nairobi. He has also attended executive programmes in executive development at the Wharton School, University of Pennsylvania and in corporate governance at Harvard Business School, Harvard University. His banking career spans over 30 years and includes stints at Commercial Bank of Africa, Standard Chartered Bank and Citibank N.A culminating in his posting to London to head Citibank's Emerging Markets Financial Institution Business. In 2004, he joined Ghana International Bank Plc London as the Chief Operating Officer and Executive Director, a position he held for over 10 years. Andrew has previously served as a member of the audit committee of the Commonwealth Secretariat, London and was also previously a Trustee of the Citizens Advice Bureau of Caterham and Warlingham, United Kingdom. Prior to his appointment as Group Chairman, he served as a non-executive director of KCB Bank Kenya from November 2016.

Date of Appointment to Designation:
Appointed Group Chairman in October 2018

Current KCB Group Board

Andrew is the chairman of the Nominations committee of the board.

Name: Eng. Stanley Kamau
(63 Years)

Designation:
Alternate Director to C.S – National Treasury

Education and Professional Background:

Eng. Kamau is currently the Director General, Public Investments and Portfolio Management Directorate. Prior to his current role, Eng. Kamau was the Director for Public Investment Management at the National Treasury & Planning. Before that he was the Director of Public Private Partnership (PPP) Unit, at the National Treasury & Planning where he established the current legal and regulatory framework for PPPs in Kenya. Eng Kamau has also served as an Alternate Director/Board Member in several state corporations. Eng. Kamau holds a Bachelor of Science Degree in Civil Engineering from the University of Nairobi and is a registered engineer with Engineers Registration Board of Kenya.

Date of Appointment to Board: August 2019

Current KCB Group Board

Eng. Stanley is the chairman of the Strategy & IT committee and is a member of the Oversight committee. He is a member of the boards of KCB Bank Kenya Limited, National Bank of Kenya Limited and KCB Capital Limited.

Name: Georgina Malombe
(47 Years)

Designation: Director

Education and Professional Background:

Georgina Malombe is an audit and risk professional with 21 years of experience. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration (MBA), Finance Option from the University of Nairobi. She is a Certified Public Accountant of Kenya (CPA-K), a Certified Leadership Coach and also holds a Certificate in Arbitration. She is a member of the Institute of Certified Public Accountants of (ICPAK), a member of Professional Trainers Association of Kenya (PTAK) a member of the Institute of Internal Auditors as well as a member of the Association of Women Accountants of Kenya (AWAK). Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance and Financial Reporting. Previously, she worked for The Registration of Accountants Board as the Executive Officer, The Institute of Certified Public Accountants of Kenya (ICPAK) as Manager, Public Policy and Governance as well as the Head of Compliance and Regulatory Affairs. Georgina serves as a Council Member of ICPAK as well as a Member of Ethics Commission for Cooperative Societies (ECCOS). She is the immediate past Chairperson of the Association of Women Accountants of Kenya. Currently, she is the Managing Partner of audit firm, Gemal and Company.

Date of Appointment to Board: June 2014

Current KCB Group Board

Georgina is a member of the Audit & Risk and the Oversight committees. She is a member of the boards of KCB Bank Tanzania Limited and KCB Foundation and is the Chairman of KCB Capital Limited.

Who Governs Us

Name: John Nyerere
(60 Years)

Designation: Director

Education and Professional Background:

John Nyerere is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons.) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics.

Date of Appointment to Board: June 2014

Current KCB Group Board

John is the chairman of the HR & Governance committee and is a member of the Strategy & IT and Nominations committees. He is the chairman of National Bank of Kenya Limited and also serves as a member on the board of KCB Bank Tanzania Limited.

Name: Lawrence Njiru
(52 Years)

Designation: Director

Education and Professional Background:

Lawrence holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a member of the Institute of Certified Public Accountants of Kenya (CPA-K). He joined the KCB Group Board in May 2018 and Chaired the Audit Committee until July 2020.

He has over 10 years' experience in Board leadership and has served as a non-executive director of Kenya Seed Company where he chaired the Audit Committee and previously as Chairman of Simlaw Seeds Company Limited.

In addition, he has over 20 Years senior management experience in business strategy, finance, commercial, audit and accounting. He worked at Standard Media Group Kenya Limited as Group Commercial Director and served as Group Financial Controller in the same Group. Prior to this, he worked as a senior auditor at KPMG East Africa.

Date of Appointment to Board: August 2018

Current KCB Group Board

Lawrence is the chairman of the Oversight committee and is a member of the HR & Governance and the Nominations committees. Lawrence is the Chairman of KCB Bank Kenya Limited and also sits on the board of KCB Bank Burundi Limited

Name: Anne Eriksson
(63 Years)

Designation: Director

Education and Professional Background:

Mrs. Anne Eriksson holds an MBA (Distinction) from the University of Warwick, is a Fellow of the Association of Certified & Chartered Accountants (FCCA) and a Fellow of the Institute of Certified Public Accountants of Kenya (FCPA). She has led the provision of audit and advisory services to a wide range of regional and local organizations in various sectors. She retired from PricewaterhouseCoopers (PwC) after 40 years where her last role was Regional Senior Partner for Eastern Africa and Country Senior Partner Kenya, overseeing firm wide activities in six countries with over 1,500 staff. In her role as Regional Senior Partner, she was a member of the PwC Africa leadership team. Her previous roles included heading the assurance practice of PwC in Eastern and Western Africa, including Nigeria, Ghana, Angola, Zambia and Mauritius. She is widely recognized as one of Africa's leading professionals in the industry. She has advised audit committees and boards on financial reporting, internal control matters, including risk and readiness assessment prior to implementation of major systems and processes. She serves in non-executive director positions on various boards, provides financial advice at a strategic level and mentors entrepreneurs. Anne is a non-executive director of Africa Asset Finance Inc (US), Ethio Lease (Ethiopia), Mpesa Foundation (Kenya) and JUMIA Technologies AG (Germany).

Date of Appointment to Board: December 2019

Current KCB Group Board

Anne is the chairman of the Audit & Risk committee and a member of the Strategy & IT Committee. Anne also sits on the boards of KCB Bank Kenya Limited and KCB Bank South Sudan Limited.

Who Governs Us

Name: Ahmed M. Mohamed
(46 Years)

Designation: Director

Education and Professional Background:

Ahmed Mohamud Mohamed is an advocate of the High Court of Kenya and an experienced commercial lawyer specializing in financing agreements and Islamic finance, corporate law, and transactions agreements. He holds a Masters Degree in Law (LLM) and Bachelors of Law Degree (LLB) from the University of Liverpool in the United Kingdom and a Post Graduate Diploma in Law from the College of Law, London, England.

Date of Appointment to Board:
August 2020

Current KCB Group Board

Ahmed is a member of the Audit & Risk, the Strategy & IT, the HR & Governance and the Nominations committees. He is a member on the board of KCB Bank South Sudan Limited.

Name: Dr. Obuya Bagaka
(46 Years)

Designation: Director

Education and Professional Background:

Dr. Obuya Bagaka has extensive experience and expertise in Public Administration, Policy and Strategy. He has over 12 years' experience in Public Finance and Budgeting, Governance, Capacity building, Research and Policy Development in both the public and private sectors. Currently, Bagaka provides advisory and consultancy services to public and private organization. Previously, Bagaka worked as the technical lead on governance and institutional strengthening for a DFID-funded programme: The Sustainable Urban Economic Development (SUED). He holds a PhD in Public Administration (from Northern Illinois University, USA); M.A. Public Administration (Minnesota State University-USA); B.A. Political Science & Philosophy (University of Nairobi). He is also a Member of the Commonwealth Association of Public Administration and Management.

Date of Appointment to Board:
August 2020

Current KCB Group Board

Dr. Bagaka is a member of the Audit and Risk, Strategy & IT and the Oversight Committees and serves as a member of the boards of National Bank of Kenya Limited and BPR Bank Rwanda Plc.

Name: Mrs. Alice May Kirenge
(61 Years)

Designation: Director

Education and Professional Background:

Mrs. Alice Kirenge holds a Bachelors of Commerce degree in Management and MBA in Strategic Marketing. She is a fellow of the Life Management Institute (FLMI), and an Associate in Customer Service. She is an alumnus of Strathmore Business School (SBS) and Babson Business School, Boston Mass, USA. She is a member of the Institute of Directors (IoD). She has several years' experience in the insurance and financial services sector. She is a founder member of the Starehe Girls Centre and currently sits on the Board of Sokoni Women's Development Initiative. She has previously served on the boards of Women's Enterprise International (WEI) and of the Lamu Port South Sudan Ethiopia (LAPSSET) Corridor Development Authority where she served as the chair of the finance and administration committee.

Date of Appointment to Board:
November 2021

Current KCB Group Board

Alice is a member of the HR & Governance and Audit & Risk committees. She is the Chairman of KCB Bancassurance Intermediary Limited and is a member of the board of KCB Foundation.

Who Governs Us

Name: Joshua Oigara
(47 Years)

Designation: Chief Executive Officer & Managing Director

Education and Professional Background:

Joshua Oigara holds a Masters in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Programme Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Programme for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya.

Date of appointment to Board:
January 2013

Current KCB Group Board

Joshua is a member of the HR & Governance, the Strategy & IT, the Oversight and the Nominations committees and serves as a member of the board of KCB Bank Kenya Limited, National Bank of Kenya Limited and KCB Foundation.

Name: Lawrence Kimathi
(52 Years)

Designation: Group Chief Finance Officer

Education and Professional Background:

Lawrence Kimathi holds a master's in business administration (MBA) with merit from Warwick Business School UK, a Bachelor of Science degree majoring in accounting from United States International University – Africa (USIU) and is a Certified Public Accountant of Kenya, CPA (K). He is a member of the Institute of Certified Public Accountants of Kenya and Institute of Directors. His senior leadership experience spans over 25 years having worked as Finance Director/CFO in several multinational organizations which include Cadbury East and Central Africa, AIG, East Africa Breweries Limited, BAT Sub Sahara Africa and BAT Plc in London.

Date of appointment to Board:
May 2015

Current KCB Group Board

Lawrence is a member of the KCB Bank Uganda Limited Board.

Name: Bonnie Okumu
(43 Years)

Designation: Company Secretary

Education and Professional Background:

Bonnie Okumu is the Group General Counsel since January 2021. Prior to this, she was the Director, Legal Services appointed as such in July 2018 having been promoted from the role of Head, Legal Services which she held since January 2014 when she joined KCB.

Before joining KCB, she was the Chief Legal and Regulatory Affairs Officer & Company Secretary at Telkom Kenya Limited. Prior to this she was the General Counsel & Company Secretary at Unilever Kenya Limited where she oversaw the legal and company secretarial functions for 9 operating companies in 7 countries in East and Southern Africa. Until she joined Unilever, she was the Regional Legal Manager for Nestle where she set up the legal department and led a team of lawyers in providing legal and tax advisory services to 14 operating entities in 20 countries in the Equatorial African Region. Earlier in her career, she was an associate at Dentons, Hamilton Harrison & Mathews and an audit assistant at Deloitte & Touché. She holds an LL.B from the University of Nairobi, is an advocate of the High Court of Kenya as well as a Certified Secretary (CS).

Date of appointment:
March 2021

Shareholding

The company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange.

Directors Interests as at 31 December 2021

Name of Director	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.761
Mr. Andrew W. Kairu	30,700	0.001
Mr. John Nyerere	17,585	0.001
Ms. Georgina Malombe	2,600	0.000
Mr. Lawrence Njiru	0	-
Mrs. Anne Eriksson	0	-
Mr. Ahmed Mohamed	0	-
Dr. Obuya Bagaka	0	-
Mrs. Alice Kirenge	0	-
Mr. Joshua Oigara	35,157	0.001
Mr. Lawrence Kimathi	103,800	0.003

Shareholders' Profile as at 31 December, 2021	Number of Shareholders	Number of Shares	% Shareholding
Kenyan Individual Investors	185,721	849,566,777	26.44
Kenyan Institutional Investors	6,562	1,801,104,051	56.05
East African Individual Investors	245	2,571,772	0.08
East African Institutional Investors	65	218,549,299	6.80
Foreign Individual Investors	594	68,575,042	2.13
Foreign Institutional Investors	87	273,095,874	8.50
	193,274	**3,213,462,815**	**100.00**

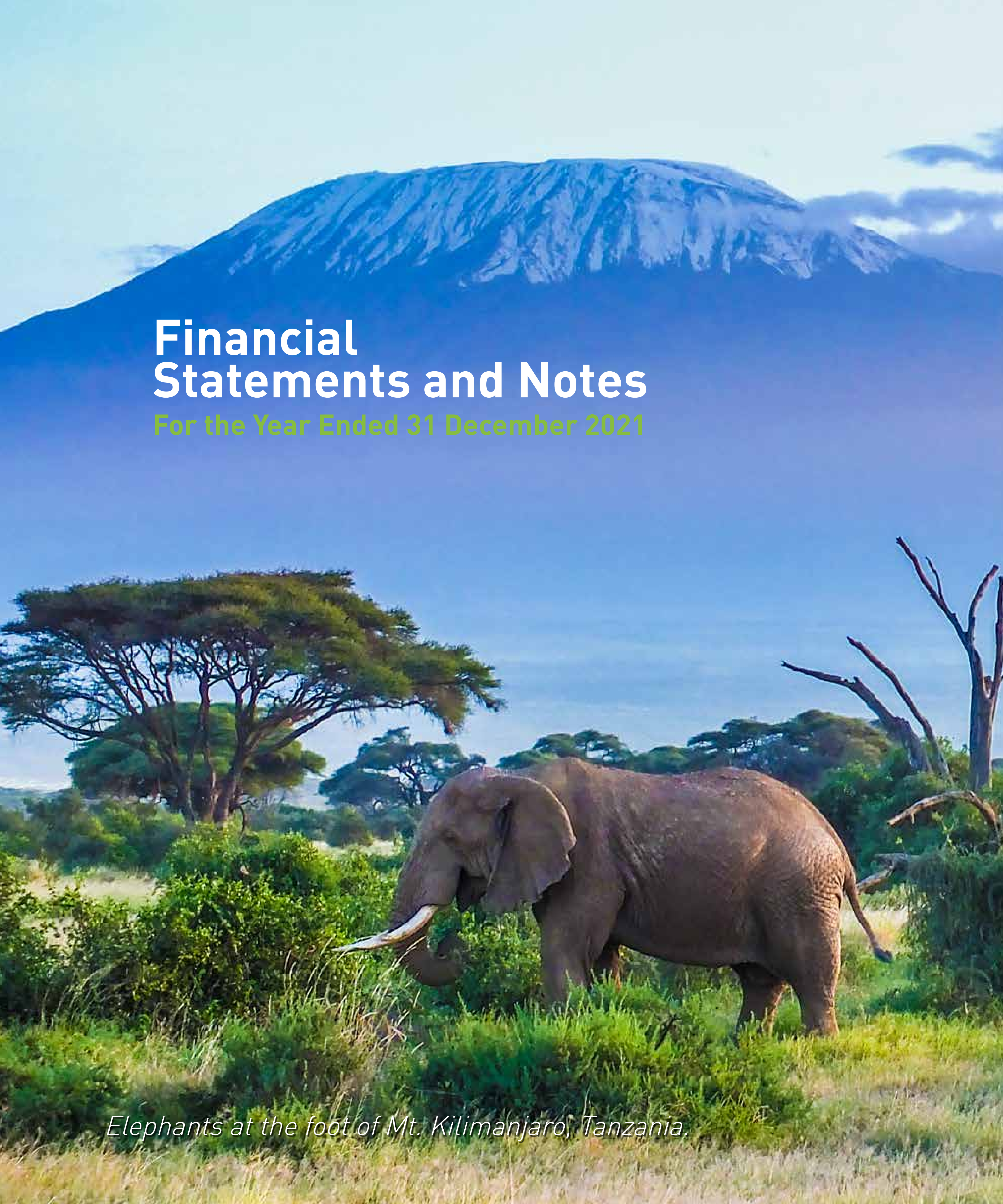
Summary of Totals

Shares Range	Number of Shareholders	Number of Shares	% Shareholding
1 to 5,000	165,204	201,908,658	6.28
5,001 to 50,000	26,068	273,135,528	8.50
50,001 to 100,000	786	54,420,502	1.69
100,001 to 1,000,000	903	265,930,082	8.28
1,000,001 to 10,000,000	286	898,313,780	27.95
10,000,001 & above	27	1,519,754,265	47.29
	193,274	**3,213,462,815**	**100.00**

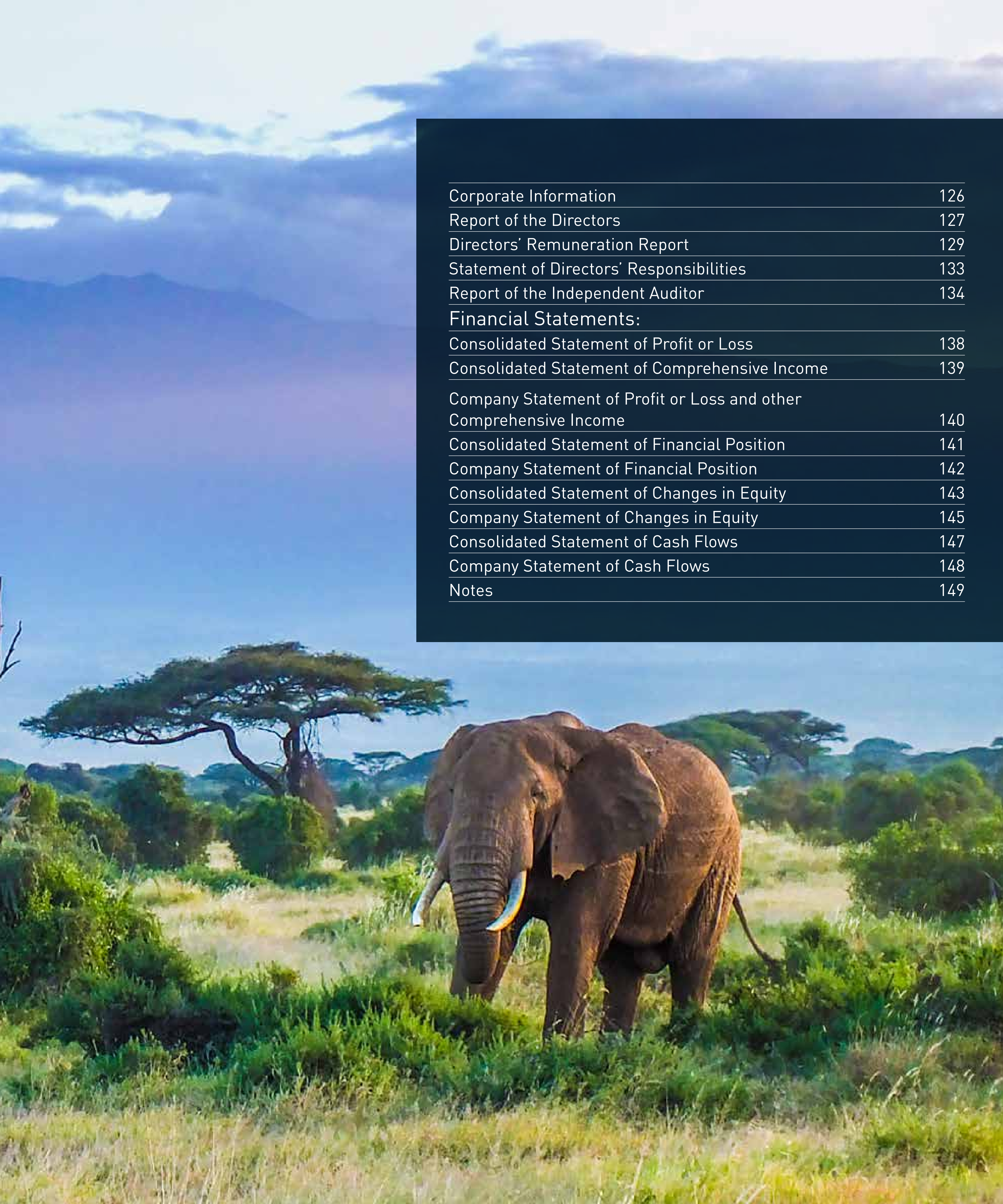
Major Shareholders	Number of Shares	% Shareholding
Cabinet Secretary to the Treasury of Kenya	635,001,947	19.76
National Social Security Fund	263,731,809	8.21
Stanbic Nominees Limited A/C NR3530153-1	128,897,900	4.01
Standard Chartered Kenya Nominees Ltd A/C KE004667	59,202,400	1.84
Standard Chartered Nominees A/C 9688	38,837,923	1.21
Kenya Commercial Bank Nominees Ltd A/C 927B	33,289,541	1.04
Babla, Sandip Kana Sinh; Babla,Alka Sandip	29,367,300	0.91
Babla, Sandip Kanaksinh Karsandas	27,725,226	0.86
Solanki Chirag Menesh, Solanki Kalavati Menesh	27,569,400	0.86
Standard Chartered Nominees Non-Red. A/C 9827	25,593,015	0.80
	1,269,216,461	**39.50**

Financial Statements and Notes

For the Year Ended 31 December 2021



Elephants at the foot of Mt. Kilimanjaro, Tanzania.



Financial Statements

KCB Group PLC

Corporate Information

For the Year Ended 31 December 2021

Directors		
Mr. Andrew W. Kairu	-	Chairman
Mr. Joshua Oigara	-	Group Chief Executive Officer & Managing Director
CS National Treasury	-	Alternate Eng. Stanley Kamau
Mr. John Nyerere		
Ms. Georgina Malombe		
Mr. Ahmed Mohamed		
Mr. Lawrence Mark Njiru		
Mrs. Anne Eriksson		
Dr. Obuya Bagaka		
Mrs. Alice M. Kirenge	-	Appointed on 10 November 2021
Mr. Lawrence Kimathi	-	Group Chief Finance Officer
Mr. Tom Ipomai	-	Retired 8 July 2021

Company Secretary

Bonnie Okumu
P. O. Box 48400 – 00100
Nairobi, Kenya

Auditor

PricewaterhouseCoopers LLP
PwC Tower
Waiyaki Way / Chiromo Road
P. O. Box 43963 – 00100
Nairobi, Kenya

Registered Offices and Principal Places of Business

KCB Group PLC
Kencom House
Moi Avenue
P. O. Box 48400 – 00100
Nairobi, Kenya

KCB Bank Kenya Limited
Kencom House
Moi Avenue
P. O. Box 48400 – 00100
Nairobi, Kenya

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
P. O. Box 47
Juba, South Sudan

National Bank of Kenya Limited
National Bank Building
18 Harambee Avenue
P. O. Box 72866 – 00200
Nairobi, Kenya

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/
Kaunda Road Junction
P. O. Box 804
Dar es Salaam, Tanzania

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
P. O. Box 7399
Kampala, Uganda

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
P. O. Box 6119
Bujumbura, Burundi

KCB Bank Kenya Limited
(Ethiopia Representative Office)
Morning Star Mall 4th floor
Bole Medhanialem
Addis Ababa, Ethiopia.

BPR Bank Rwanda Plc
Nyarugenge, Nyarugenge
Umujyi wa Kigali, Rwanda
P.O.Box 1348 Kigali,
Rwanda

Principal Lawyers

Iseme Kamau & Maema, Advocates
P. O. Box 11866-00400
Nairobi, Kenya

Oraro & Company, Advocates
P. O. Box 51236-00100
Nairobi, Kenya

MMC Asafo LLP
P. O. Box 75362-00200
Nairobi, Kenya

TripleOKLaw Advocates
P. O. Box 11866-00400
Nairobi, Kenya

The full list of the Group lawyers is available at Kencom House, the principal place of business of the Group.

Financial Statements

KCB Group PLC

Report of the Directors

For the Year Ended 31 December 2021

1. **Principal activities**

   The company is licensed as a non-operating holding company under the Banking Act (Cap 488).

   The principal activities of its main subsidiaries is provision of corporate, investment and retail banking services.

2. **Results**

   The results of the Group and the Company are set out on pages 138 to 139 and 140 respectively.

3. **Dividend**

   An interim dividend of KShs 3,213 million was paid during the year (2020 – Nil). The Directors recommend the payment of a final dividend of KShs 6,426 million (2020: KShs 3,213 million), which together with the interim dividend brings the total dividends for the year to KShs 9,640 million (2020: KShs 3,213 million).

4. **Directors**

   The Directors who served during the year and up to the date of this report are set out on page 126.

   All the Directors are non-executive other than the Group Chief Executive Officer & Managing Director and the Group Chief Finance Officer.

5. **Acquisition of Banque Populaire du Rwanda PLC**

   The Group acquired Banque Populaire du Rwanda PLC, a bank operating in Rwanda through a share purchase with effect from 31 July 2021 in line with the approval of the shareholders of the Company during the Annual General Meeting held on 27 May 2021. The Group also obtained approvals for the acquisition from the Competition Authority of Kenya, Central Bank of Kenya and the Capital Markets Authority.

   The Group is looking at obtaining synergy through the acquisition and also increase its market share in the banking sector.

   Detailed information on this transaction is disclosed in Note 33.

6. **Business review and financial performance**

   The Group consolidation includes the results of the entities owned by 'KCB Group PLC'. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda and Burundi mainly undertaking retail and corporate banking business in the domicile countries. The group also has a representative office in Ethiopia.

   Interest income recorded 19.2% increase from KShs 96.3 billion to KShs 114.8 billion. This is mainly due to the growth in interest income from government securities and interest income on loans and advances. This resulted from with an increase in government securities from KShs 211 billion to KShs 274 billion and increase in loans and advances to customers from KShs 595 billion to KShs 675 billion, respectively.

The net fees and commission income increased by 1% from KShs 10.3 billion to KShs 10.4 billion due to increased customer transactions as business gradually resumed after the impact of the COVID-19 pandemic and opening of the economy.

The Group's credit impairment losses decreased by 49% to KShs 14 billion (2020: KShs 27.5 billion) mainly due to additional provisions taken in the previous year occasioned by significant increase in credit risk due to the COVID-19 pandemic. The profit for the year recorded a 74% increase from KShs 19.6 billion to KShs 34.2 billion mainly driven by growth in revenue and decrease in loan loss provisions.

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management framework focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group.

This is entrenched in the Group's governance structure. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board of Directors of the Group has established various committees including Audit & Risk, Human Resources & Governance, Strategy & IT, Nominations & Oversight committees, which are tasked with developing and continuous monitoring of the Group risk management policies in their specified areas. The detailed description and analysis of the key risks is set out on note 4 of the financial statements.

Employees' Welfare

Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and direction allowing our employees to connect to each other as they are bound by a common mission and vision.

The Group's management focuses on building the right culture as a strategic human resource priority by ensuring that the Group's culture is embedded across all levels and the same is driven across the entire workforce. Having the right culture is an essential element for the Group's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Environmental Footprint

At KCB Group, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen, we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

Financial Statements

KCB Group PLC

Report of the Directors

For the Year Ended 31 December 2021

7. Statement as to disclosure to the Group and Company's auditor

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

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

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

8. Terms of appointment of the auditor

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

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

9. Events after the reporting period

There has been no event after the reporting date that require adjustment or disclosure to these financial statements.

By Order of the Board

Bonnie Okumu
Company Secretary
Nairobi

16 March 2022

Financial Statements

KCB Group PLC

Directors' Remuneration Report

For the Year Ended 31 December 2021

Information not Subject to Audit

The KCB Group Plc approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Group's business.

KCB Group Plc presents the Directors' Remuneration report for the year ended 31 December 2021 in line with The Capital Markets Authority *Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015* which provides guidelines on Director's remuneration and in line with the provisions of the Companies Act, 2015.

During the year ended 31 December 2021, the Board of Directors consisted of:

a) Two Executive Directors:
   - i) Joshua Oigara – Group Chief Executive Officer & Managing Director
   - ii) Lawrence Kimathi – Group Chief Finance Officer

b) Nine Non-Executive Directors:
   - i) Andrew W. Kairu (Chairman)
   - ii) Cabinet Secretary - National Treasury (Alternate: Eng. Stanley Kamau)
   - iii) Georgina Malombe
   - iv) John Nyerere
   - v) Lawrence Mark Njiru
   - vi) Anne Eriksson
   - vii) Ahmed Mohamed
   - viii) Dr. Obuya Bagaka
   - ix) Alice M. Kirenge (Appointed on 10 November 2021)
   - x) Tom Ipomai (Retired on 8 July 2021)

1. Directors' Emoluments

For the financial year ended 31 December, 2021, the total Non-executive Directors remuneration was KShs. 121 million (2020 - KShs.119 million).

The total amount of emoluments paid to Directors for services rendered during the Year 2021 is disclosed on page 131.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

2. Non-Executive Directors remuneration and privileges policy

The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Non-executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the board is externally facilitated after every two years. Each director completes a detailed questionnaire designed to obtain feedback on the board's performance in the following areas:

- Strategic objectives;
- Risk governance;
- Board composition and skills;
- Board meetings and preparation;
- Board interaction and support;
- Performance of governance functions; and
- Performance of Chairman, respective committees and individual directors.

Each Non-Executive Director serves for a total non-renewable period of 8 years from the date of appointment. However, in accordance with the Articles of Association of the Company, one-third of the Non-executive Directors are required to resign and may offer themselves for re-election to continue serving on the Board. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the board.

The tenure of the current Non-executive Directors is as follows:

Name	Appointment Date	Retirement Date
Mr. Andrew W. Kairu (Chairman)	4 June 2018	3 June 2026
CS National Treasury	24 September 2014	-
Ms. Georgina Malombe	16 June 2014	16 June 2022
Mr. John Nyerere	13 June 2014	13 June 2022
Mr. Lawrence Mark Njiru	7 August 2018	6 August 2026
Mrs. Anne Eriksson	18 December 2019	17 December 2027
Mr. Ahmed Mohamed	16 July 2020	11 August 2028
Dr. Obuya Bagaka	6 August 2020	27 August 2028
Mrs. Alice M. Kirenge	10 November 2021	31 August 2025

The Human Resources & Governance Committee of the Board is responsible for setting and administering the Non-Executive Directors remuneration policy.

Financial Statements

KCB Group PLC

Directors' Remuneration Report
For the Year Ended 31 December 2021

Information not Subject to Audit (Continued)

2. Non-Executive Directors Remuneration and privileges policy (Continued)

The Human Resources & Governance Committee continuously reviews the entitlements under the policy to ensure these are aligned to the market.

The following benefits are provided to the Non-Executive Directors:

Monthly Fees
These are paid to the Non-Executive Directors taking into account their responsibility as a Director of the Company.

Sitting Allowance
A sitting allowance is paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Board Committees.

Duty Day Allowance
An allowance paid to a Non-Executive Director for any day away from his or her regular station in order to attend to duties of the Company.

Telephone Allowance
Non-Executive Directors are entitled to a telephone allowance paid monthly.

Club Membership
Non-Executive Directors are entitled to membership fees to a social or fitness club.

Medical Insurance Cover
All Non-Executive Directors are provided individual medical cover for both out-patient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Non-Executive Directors in undertaking their duties in such capacity.

3. Executive Directors Remuneration
The remuneration for Executive Directors is based on negotiated employment contracts. Each Executive Director is employed on a fixed term basis. The fixed term contracts run for a period not exceeding 5 years. The contracts are renewable based on the performance of the executive directors and at the Board's discretion.

Executive Directors performance is measured based on a Balanced Score Card. Annual business performance targets are derived from the Group three year strategic plan. The key initiatives under the strategic plan include:

- Building a customer centric organisation.
- Exponential growth in digital financial services.
- Excellence in operational efficiency.
- Business growth.
- Effective talent management.
- Driving shareholder value.

Key performance measures under the Balanced Score Card include:

- Financial performance.
- Customer and stakeholder satisfaction.
- Human capital, culture, learning and growth.
- Efficiency in internal business processes.

Executive Directors are entitled to the following remuneration:

Consolidated Basic Pay
This is the consolidated base salary paid to the Executive Director that includes an element of housing.

Bonus
Executive Directors are entitled to a performance-based bonus pay. According to the bonus policy, 75% of the approved bonus is paid within 12 months after the year end. The balance of 25% is deferred to be paid over the 3 subsequent financial years. The total approved bonus is accrued as a liability in the financial statements of the respective year end.

Allowances
Allowances paid include a house allowance, a car allowance, a telephone allowance and an allowance related to loan benefit adjustment.[1]

Gratuity
This is paid to Executive Directors at the rate of 30% of the annual consolidated basic salary. The total gratuity earned is payable at the end of the contract term.

Club Membership
Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover
As provided to all employees, Executive Directors are entitled to medical insurance cover for their individual and family medical requirements covering both outpatient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Executive Directors in undertaking their duties in such capacity.

During the year 2021, there was no adjustment to the basic pay of the two Executive Directors sitting on the Board.

Notes:
Loan benefit adjustment relates to allowances paid to compensate executive directors for interest on their loans which are priced at higher than the normal staff loan rates.

The details of the contracts for the Executive Directors are as follows:

Name	Commencement Date	Duration	Unexpired term as at 31 December 2021	Termination Notice
Joshua Oigara	1 January, 2018	5 years	1 year	3 months
Lawrence Kimathi	1 January, 2021	5 years	4 years	3 months

KCB Group PLC

Directors' Remuneration Report

For the Year Ended 31 December 2021

Information Subject to Audit

i. **Non-Executive Directors Fees, Allowances and other Benefits for the Year Ended 31 December 2021**

Director's Name	Directors fees KShs. '000'	Sitting allowance KShs. '000'	Other allowances [1] KShs. '000'	Non-cash benefit [2] KShs. '000'	Total KShs. '000'
Mr. Andrew Wambari Kairu	8,923	3,800	2,724	194	**15,641**
CS National Treasury	2,820	-	-	-	**2,820**
Eng. Stanley Kamau	-	8,581	534	194	**9,309**
Mr. Tom Ipomai [3]	2,382	4,044	277	297	**7,000**
Ms. Georgina Malombe	6,905	5,381	364	194	**12,844**
Mr. John Nyerere	5,465	4,433	662	194	**10,754**
Mr. Lawrence Njiru	7,914	6,221	2,312	194	**16,641**
Mrs. Anne Eriksson	4,640	10,254	561	194	**15,649**
Mr. Ahmed Mohamed	1,625	3,256	766	194	**5,841**
Dr. Obuya Bagaka	6,365	8,649	2,442	700	**18,155**
Mrs. Alice Kirenge[4]	4,070	2,213	317	194	**6,794**
Grand Total [5]	**51,109**	**56,832**	**10,959**	**2,549**	**121,499**

Notes:

(1) Other allowances include the telephone allowance, a meal allowance and the duty day allowance.

(2) Non-cash benefits include medical insurance cover cost and entitlement to club membership and professional indemnity cover cost.

(3) Retired on 8 July 2021.

(4) Appointed on 10 November 2021.

(5) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Plc, KCB Bank Burundi Limited, KCB Capital Limited, KCB Bancassurance Intermediary Limited (formerly, KCB Insurance Agency Limited) and Banque Populaire du Rwanda. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

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KCB Group PLC
Directors' Remuneration Report
For the Year Ended 31 December 2021
Information Subject to Audit (Continued)

ii. Non-Executive Directors Fees, Allowances and other Benefits for the Year Ended 31 December 2020

Director's Name	Directors fees KShs. '000'	Sitting allowance KShs. '000'	Other allowances [1] KShs. '000'	Non-cash benefit [2] KShs. '000'	Total KShs. '000'
Mr. Andrew Wambari Kairu	8,923	6,075	776	354	**16,128**
CS National Treasury	2,520	-	-	-	**2,520**
Eng. Stanley Kamau	-	10,301	472	904	**11,677**
Mr. Adil Khawaja [3]	4,043	2,784	185	1,144	**8,156**
Mr. Tom Ipomai	4,682	11,160	320	214	**16,376**
Ms. Georgina Malombe	6,905	5,679	464	84	**13,131**
Mr. John Nyerere	5,465	5,681	653	142	**11,941**
Mr. Lawrence Njiru	6,883	9,825	308	84	**17,100**
Mrs. Anne Eriksson	3,687	9,532	584	84	**13,886**
Mr. Ahmed Mohamed [4]	747	1,651	83	35	**2,515**
Dr. Obuya Bagaka [5]	2,004	3,469	367	35	**5,875**
Grand Total [6]	**45,859**	**66,156**	**4,212**	**3,080**	**119,307**

Notes:

(1) Other allowances include the telephone allowance, a meal allowance and the duty day allowance.
(2) Non-cash benefits include medical insurance cover cost and entitlement to club membership and professional indemnity cover cost.
(3) Retired on 14 June 2020.
(4) Appointed on 12 August 2020.
(5) Appointed on 28 August 2020.
(6) The amount includes fees, allowances, and other benefits in respect of KCB Bank Kenya Limited, National Bank of Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited, KCB Capital Limited and KCB Insurance Agency Limited. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

iii. Executive Directors Remuneration
Year Ended 31 December 2021

Director's Name	Salary KShs million	Approved Bonus		Allowances KShs million	Gratuity KShs million	Noncash benefit [1] KShs million	Total KShs million
		Payable within 1 year KShs million	Deferred KShs million				
Mr. Joshua Oigara	76.4	188.3	62.8	16.6	22.9	1.6	368.5
Mr. Lawrence Kimathi	43.2	34.0	11.3	4.6	13.0	1.6	107.7

Year Ended 31 December 2020

Director's Name	Salary KShs million	Approved Bonus		Allowances KShs million	Gratuity KShs million	Noncash benefit [1] KShs million	Total KShs million
		Payable within 1 year KShs million	Deferred KShs million				
Mr. Joshua Oigara	76.4	-	-	16.6	22.9	0.3	116.2
Mr. Lawrence Kimathi	43.2	-	-	4.4	13.0	0.1	60.7

Note:

(1) Non-cash benefits include medical insurance cover and club membership.

By order of the Board

John Nyerere
Chairman, Human Resources & Governance Committee
Date: 16 March 2022

Financial Statements

KCB Group PLC
Statement of Directors' Responsibilities

For the Year Ended 31 December 2021

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep 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 judgements 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 responsibilities.

Approved by the board of directors on 16 March 2022 and signed on its behalf by:

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer and Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

Independent Auditor's Report to the Shareholders of KCB Group Plc

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of KCB Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 138 to 236, which comprise the consolidated statement of financial position at 31 December 2021 and the consolidated statement of profit or loss, consolidated statement of 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 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 company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

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

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

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

Independent Auditor's Report to the Shareholders of KCB Group Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Credit risk assessment and determination of expected credit losses on loans and advances at amortised cost As explained in Note 2 (j) and 4 (a) of the financial statements, determining expected credit losses on loans and advances is complex, judgmental and involves significant estimation uncertainty. IFRS 9, Financial Instruments, requires the directors to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities are performing, have experienced significant increase in credit risk or are in default. Changes to the assumptions and estimates used by management could generate significant fluctuations in the Group's financial results and materially impact the valuation of the portfolio of loans and advances. In addition, the evolving economic impact of the COVID-19 pandemic has heightened the general risk of credit default and significant increase in credit risk, increasing the uncertainty around the management judgements and estimation process. The calculation of the expected credit losses involves complex mathematical models that are prone to data integrity or configuration errors, or mathematical formulaic errors. This is an area of focus because of significant impact on the calculation of the expected credit losses: • the judgments made to determine the categorisation (staging) of individual loans and advances accounts 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; • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays; • the appropriateness of forward-looking information used in the models; and • the mathematical logic, appropriateness and accuracy of the expected credit losses models used by the entities in the Group.	We evaluated the Group's methodology for determining expected credit losses, including enhancements in the year, against the requirements of IFRS 9. Tested how the individual entities applied the system extracts of 'days past due (DPD)' report in categorising the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD reports from the IT systems and the respective customer files. Reviewed judgments applied in the staging of loans and advances. Tested the completeness of restructured loans listing and, on a sample basis, assessed the rationale for the restructures and the appropriateness of their subsequent measurement in accordance with IFRS 9 requirements. Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD), including the post write-off recovery rates for unsecured facilities and the COVID-19 impact overlays. Tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuers' reports. On a sample basis, we recomputed the EADs for both on and off-balance sheet exposures to check their reasonableness, including applying cash conversion factors. We also reviewed judgments applied in the staging of loans and advances. Corroborated the assumptions used for determination of forward-looking information (FLI) in the models using publicly available information. Assessed the adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.

Independent Auditor's Report to the Shareholders of KCB Group Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Reliance on Information & Communications Technology systems for financial control and reporting. The Group's financial control, accounting and reporting processes are heavily dependent on complex information & communications technology systems and applications. Specifically, the calculation, recording and financial reporting of financial transactions and balances are significantly dependent on automated processes. Weaknesses in the design and operating effectiveness of the automated accounting procedures and related IT dependent manual controls could result in material errors in the financial information, which makes this an area of focus. Our audit focus on information & communications technology systems and applications and controls over financial reporting included the following areas: • management of logical access to critical systems including privileged access and developer access to production environment; • controls over changes of programs and systems developments; • automated application controls relating to processing of transactions, accounting and financial reporting; and • interfaces between the core financial reporting systems to banking systems and applications, including any manual adjustments to the financial information.	Assessed and tested the design and operating effectiveness of the controls over the integrity of information technology (IT) systems and applications that are relevant for financial accounting and reporting. Tested controls over programs development and changes, access to programs and data and IT operations including compensating controls where necessary. We also tested certain aspects of the security of the IT systems including logical access management and segregation of duties. Where, either design or operating effectiveness control deficiencies were identified, we altered our audit approach to test the compensating controls or increased the level of our tests of detail. These additional procedures mitigated the deficiencies or provided the additional audit comfort. Validated any manual adjustments to information generated by the IT systems and applications and assessed the appropriateness of the adjustments. Reperformed automated controls and calculations by the core banking systems and other significant applications to ensure that the applications are working accurately and as designed. This included recomputation of interest income, interest expense, fees and commission income and trading income.

Other information

The other information comprises Corporate information, Report of the directors, Directors' remuneration report, Statement of directors' responsibilities and the rest of the information included in the integrated report and financial statements which we obtained prior to the date of this auditor's report 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 express any form of assurance conclusion thereon.

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

Responsibilities of 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Shareholders of KCB Group Plc (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group'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 Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 127 and 128 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 131 to 132 has been properly prepared in accordance with the Companies Act, 2015

FCPA Michael Mugasa, Practicing Certificate Number 1478
Engagement partner responsible for the audit
For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

16 March 2022

Financial Statements

For the Year Ended 31 December 2021

Consolidated Statement of Profit or Loss

	Note	2021 KShs million	2020 KShs million
Interest income	8	114,826	96,261
Interest expense	8	(24,463)	(21,209)
Net interest income		**90,363**	**75,052**
Fees and commission income	9	11,794	11,426
Fees and commission expense	9	(1,360)	(1,163)
Net fees and commission income		**10,434**	**10,263**
Net foreign exchange gain	10	6,547	5,390
Other operating income	11	1,290	4,360
Gain from bargain purchase	33	689	-
Total income		**109,323**	**95,065**
Allowance for expected credit losses	12	(13,998)	(27,509)
Net gain on financial assets at fair value through profit or loss	13	284	393
		(13,714)	**(27,116)**
Net operating income		**95,609**	**67,949**
Employee benefits	14	(25,070)	(20,511)
Depreciation and amortisation	15	(6,028)	(5,919)
Other operating expenses	16	(16,952)	(15,930)
Gain on monetary position	18	216	130
		47,775	**25,719**
Share of net profit from associates accounted for using the equity method		40	-
Profit before income tax		**47,815**	**25,719**
Income tax expense	19	(13,642)	(6,115)
Profit for the year		**34,173**	**19,604**
Profit is attributable to :			
Equity holders of KCB Group Plc		34,092	19,604
Non-controlling interest		81	-
		34,173	**19,604**
Earnings per share (KShs)			
Basic earnings per share	20	10.61	6.10
Diluted earnings per share		10.61	6.10

Financial Statements

For the Year Ended 31 December 2021

Consolidated Statement of Comprehensive Income

	Note	2021 KShs million	2020 KShs million
Profit for the year		**34,173**	**19,604**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of post employment benefit obligations	47	(418)	(167)
Income tax expense thereon	34	125	50
		(293)	**(117)**
Items that may be reclassified subsequently to profit or loss			
Hyperinflation translation		(4)	(1,539)
Currency translation differences on foreign operations		(634)	584
Financial assets at fair value through other comprehensive income			
Gain/(loss) from fair value re-measurement		(899)	3,119
Income tax expense thereon	34	270	(936)
		(1,267)	**1,228**
Other comprehensive income for the year net of income tax		**(1,560)**	**1,111**
Total comprehensive income for the year		**32,613**	**20,715**
Total comprehensive income for the year is attributable to:			
Owners of KCB Group Plc		32,532	20,715
Non-controlling interest		81	-
Total comprehensive income for the year		**32,613**	**20,715**

Financial Statements

For the Year Ended 31 December 2021

Company statement of profit or loss and other comprehensive income

	Note	2021 KShs million	2020 KShs million
Dividend income	11	15,688	170
Interest income	8	157	31
Net foreign exchange gain	10	52	38
Fees and commission income	9	32	-
Other operating income	11	1,154	507
Total income		**17,083**	**746**
Employee benefits	14	(1,044)	(653)
Depreciation and amortization	15	(16)	(14)
Other operating expenses	16	(494)	(1,432)
Profit /(loss) before income tax	17	**15,529**	**(1,353)**
Income tax expense	19	(19)	(18)
Profit /(loss) for the year		**15,510**	**(1,371)**
Total comprehensive income/ (loss) for the year		**15,510**	**(1,371)**
Earnings per share (KShs)			
Basic		**4.83**	**(0.43)**
Diluted		**4.83**	**(0.43)**

Financial Statements

At 31 December 2021

Consolidated Statement of Financial Position

	Note	2021 KShs milion	2020 KShs million
ASSETS			
Cash and bank balances	21	71,612	64,608
Loans and advances to banks	22	26,642	23,706
Financial assets at fair value through other comprehensive income	23	139,704	94,284
Financial assets at fair value through profit or loss	28	5,462	5,143
Investment accounted for using equity method	24	402	600
Other assets and prepayments	25	27,329	43,162
Current income tax	19	-	426
Loans and advances to customers	26	675,481	595,255
Financial assets at amortized cost	27	131,127	111,357
Property and equipment	29	16,993	14,629
Investment property	30	10,666	6,035
Right-of-use assets	31	4,862	5,459
Intangible assets	32	7,010	5,499
Deferred income tax	34	22,382	17,647
TOTAL ASSETS		**1,139,672**	**987,810**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from other banks	35	47,817	19,668
Deposits from customers	36	837,141	767,224
Payables and accrued expenses	37	30,208	14,428
Lease liabilities	38	6,681	6,858
Current income tax	19	5,644	-
Deferred income tax	33	655	-
Retirement benefits obligation	47	458	177
Borrowings	40	37,561	37,032
Total liabilities		**966,165**	**845,387**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Statutory credit risk reserve	42	7,959	2,155
Other reserves	42	(8,385)	(6,668)
Retained earnings		141,236	116,033
Total equity attributable to equity holders of KCB Group PLC		171,713	142,423
Non-controlling interest		1,794	-
Total equity		**173,507**	**142,423**
TOTAL LIABILITIES AND EQUITY		**1,139,672**	**987,810**

The financial statements set out on pages 138 to 236 were approved and authorised for issue by the Board of Directors on 16 March 2022 and were signed on its behalf by:

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

Financial Statements

At 31 December 2021

Company Statement of Financial Position

	Note	2021 KShs milion	2020 KShs milion
ASSETS			
Cash and bank balances	21	517	1,147
Other assets and prepayments	25	4	33
Investment in subsidiaries	33	87,964	79,662
Receivables from related parties	39	1,800	213
Property and equipment	29	614	616
Intangible assets	32	5	7
Current income tax	19	93	25
Total Assets		**90,997**	**81,703**
Liabilities and Equity			
Liabilities			
Payables and accrued expenses	37	606	53
Deferred income tax	34	7	10
Due to related parties	39	-	3,553
Total liabilities		**613**	**3,616**
Equity			
Share capital	41	3,213	3,213
Share premium		27,690	27,690
Retained earnings		59,481	47,184
Total equity		**90,384**	**78,087**
Total Liabilities And Equity		**90,997**	**81,703**

The financial statements set out on pages 138 to 236 were approved and authorised for issue by the Board of Directors on 16 March 2022 and were signed on its behalf by:

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Anne Eriksson
Director

Bonnie Okumu
Secretary

Financial Statements

For the Year Ended 31 December 2021

Consolidated Statement of Changes in Equity

	Attributable to owners of KCB Group plc							
	Share capital	Share premium	Statutory credit risk reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2021	3,213	27,690	2,155	(6,668)	116,033	142,423	-	142,423
Non-controlling interests from business acquisition	-	-	-	-	-	-	1,684	1,684
Profit for the year	-	-	-	-	34,092	34,092	81	34,173
Other comprehensive income (net of taxes)								-
Foreign currency translation differences for foreign operations	-	-	-	(663)	-	(663)	29	(634)
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(629)	-	(629)	-	(629)
Transfer to statutory credit risk reserve	-	-	5,804	-	(5,804)	-	-	-
Hyperinflationary impact	-	-	-	(132)	128	(4)	-	(4)
Re-measurement of post-employment benefit obligation (net of taxes)	-	-	-	(293)	-	(293)	-	(293)
Total comprehensive income	**-**	**-**	**5,804**	**(1,717)**	**28,416**	**32,503**	**110**	**32,613**
Transactions with owners recorded directly in equity								
Dividend paid in 2021	-	-	-	-	(3,213)	(3,213)		(3,213)
	-	**-**	**-**	**-**	**(3,213)**	**(3,213)**	**-**	**(3,213)**
At 31 December 2021	**3,213**	**27,690**	**7,959**	**(8,385)**	**141,236**	**171,713**	**1,794**	**173,507**

Financial Statements

For the Year Ended 31 December 2021

Consolidated Statement of Changes in Equity

	Share capital KShs Millions	Share premium KShs Millions	Statutory credit risk reserve KShs Millions	Other reserves KShs Millions	Retained earnings KShs Millions	Total equity KShs Millions
At 1 January 2020	3,213	27,690	5,915	(8,429)	101,352	129,741
Profit for the year	-	-	-	-	19,604	19,604
Other comprehensive income (net of taxes)						-
Foreign currency translation differences for foreign operations	-	-	-	584	-	584
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	-	2,183	-	2,183
Transfer from statutory credit risk reserve	-	-	(3,760)	-	3,760	-
Hyperinflationary impact	-	-	-	(889)	(650)	(1,539)
Re-measurement of post-employment benefit obligation (net of taxes)	-	-	-	(117)	-	(117)
Total comprehensive income	**-**	**-**	**(3,760)**	**1,761**	**22,714**	**20,715**
Transactions with owners recorded directly in equity						
Dividend paid in 2020	-	-	-	-	(8,033)	(8,033)
	-	**-**	**-**	**-**	**(8,033)**	**(8,033)**
At 31 December 2020	**3,213**	**27,690**	**2,155**	**(6,668)**	**116,033**	**142,423**

Financial Statements

For the Year Ended 31 December 2021

Company Statement of Changes in Equity

	Share capital KShs Millions	Share premium KShs Millions	Retained earnings KShs Millions	Total KShs Millions
At 1 January 2021	3,213	27,690	47,184	78,087
Profit for the year	-	-	15,510	15,510
Other comprehensive income (net of taxes)				
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	-	-
Total comprehensive income	**3,213**	**27,690**	**62,694**	**93,597**
Transactions with owners recorded directly in equity				
Dividend paid in 2021	-	-	(3,213)	(3,213)
At 31 December 2021	**3,213**	**27,690**	**59,481**	**90,384**

Financial Statements

For the Year Ended 31 December 2021

Company Statement of Changes in Equity

	Share capital KShs Millions	Share premium KShs Millions	Other reserves KShs Millions	Retained earnings KShs Millions	Total KShs Millions
At 1 January 2020	3,213	27,690	(52)	56,588	87,439
Loss for the year	-	-	-	(1,371)	(1,371)
Other comprehensive income (net of taxes)					
Net gain on fair value of financial assets at fair value through other comprehensive income (net of tax)	-	-	52	-	52
Total comprehensive income	**-**	**-**	**52**	**(1,371)**	**(1,319)**
Transactions with owners recorded directly in equity					
Dividend paid in 2020	-	-	-	(8,033)	(8,033)
	-	**-**	**-**	**(8,033)**	**(8,033)**
At 31 December 2020	**3,213**	**27,690**	**-**	**47,184**	**78,087**

Consolidated Statement of Cashflows

	Note	2021 KShs million	2020 KShs million
Net cash flows from operating activities	44	**8,991**	**2,167**
Investing activities			
Proceeds from disposal of property and equipment		31	54
Purchase of intangible assets	32	(1,054)	(1,281)
Purchase of property and equipment	29	(2,746)	(3,424)
Acquisition of subsidiary	33	(4,846)	-
Net cash flows from investing activities		**(8,615)**	**(4,651)**
Financing activities			
Proceeds from borrowings		-	16,376
Payment of principal portion of borrowings		(3,077)	(2,787)
Payment of principal portion of lease liabilities		(1,231)	(1,100)
Dividends paid		(3,213)	(8,033)
Net cash flows from financing activities		**(7,521)**	**4,456**
(Decrease)/Increase in cash and cash equivalents		(7,145)	1,972
Cash and cash equivalents at the start of the year		65,174	63,202
Cash and cash equivalents at end of year	44	**58,029**	**65,174**

Financial Statements

For the Year Ended 31 December 2021

Company Statement of Cashflows

	Note	2021 KShs million	2020 KShs million
Net cash flows from operating activities	44	**10,897**	**8,458**
Investing activities			
Proceeds from disposal of property and equipment		(13)	(21)
Investment in subsidiaries	33	(8,301)	(435)
Net cash flows from investing activities		**(8,314)**	**(456)**
Financing activities			
Dividends paid		(3,213)	(8,033)
Net cash flows from financing activities		**(3,213)**	**(8,033)**
Increase in cash and cash equivalents		(630)	(31)
Cash and cash equivalents at the beginning of the year		1,147	1,178
Cash and cash equivalents at end of year	44	**517**	**1,147**

Notes

1. Reporting Entity

KCB Group Plc is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Company as at and for the year ended 31 December 2021 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
P. O. Box 48400 - 00100
Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Rwanda Plc, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Bancassurance Intermediary Limited, KCB Capital Limited, National Bank of Kenya Limited, 76.7% ownership in BPR Bank Rwanda Plc, 20% ownership in Kenya Mortgage Refinance Company (KMRC) and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

2. Summary of Significant Accounting Policies

(a) Compliance with IFRS

The financial statements of the Group 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 and the Companies Act, 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

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

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets at fair value through profit or loss are measured at fair value;
- Financial assets at fair value through other comprehensive income are measured at fair value;
- Investment property is measured at fair value; and,
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

(c) Changes in accounting policies and disclosures

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

i. New standards, amendments and interpretations effective and adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021. These standards and amendments did not have a material impact on the financial statements.

Title	Key requirements	Effective Date
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2).	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.	Annual periods beginning on or after 1 January 2021
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for 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 concession as a variable lease payment.	Annual periods beginning on or after 1 June 2020 (early adoption is permitted)

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

c) Changes in accounting policies and disclosures (Continued)

New standards, amendments and interpretations issued not yet effective

The below new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group.

Title	Key requirements	Effective Date
Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	Annual periods beginning on or after 1 January 2022
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	Annual periods beginning on or after 1 January 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.	Annual periods beginning on or after 1 January 2022
Annual improvements cycle 2018 -2020	These amendments include minor changes to: IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.	Annual periods beginning on or after 1 January 2022
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).	Annual periods beginning on or after 1 January 2022

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

c) Changes in accounting policies and disclosures (Continued)

New standards, amendments and interpretations issued not yet effective

Effect of LIBOR reform

The London Interbank Offered Rate (LIBOR) is the reference interest rate that underpins trillions of loans and derivative contracts worldwide. The reform of LIBOR and other inter-bank offered rates ('IBORs') and their replacement with Alternative Reference Rates (ARRs) become a priority for global regulators following the 2008/09 global financial crisis. On 5 March 2021, LIBOR's administrator, the Intercontinental Exchange (ICE) Benchmark Administration Limited, confirmed the intention to cease the publication of EUR, CHF, JPY, and GBP LIBOR for all tenors after 31 December 2021. Cession of the USD LIBOR will follow a two-stage process with some rates being discontinued on 31 December 2021 and others after 30 June 2023.

At present, SONIA (Sterling Overnight Indexed Average) and SOFR (Secured Overnight Financing Rate) are set to replace GBP and USD LIBOR respectively. Due to the differences in the manner in which the GBP/USD LIBOR rate and the SONIA/SOFR are determined, adjustments may have to be applied to contracts that reference GBP/USD LIBOR when SONIA/SOFR becomes the official reference rate, so as to ensure economic equivalence on transition. Currently the Financial Conduct Authority (FCA) in the UK and industry working groups are reviewing various methodologies for calculating these adjustments, to ensure an orderly transition to SONIA/SOFR and to minimise the financial risks arising from the transition. The following ARRs are currently set to replace the following LIBORs which the Group might be exposed to:

- USD – SOFR
- GBP – SONIA
- EUR – Euro short-term rate (€str)
- JPY – Tokyo Overnight Average Rate (TONAR)
- CHF – Swiss Average Rate Overnight (SARON)

The Group's risk exposure that is directly affected by the interest rate benchmark reform only comprises of its long-term borrowing contracts which are referenced to the 6 months USD LIBOR that extend beyond 2021. These are disclosed in Note 40 to the financial statements.

During 2021, Management established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, and risk management, as well as managing related tax and accounting implications.

In anticipation of the change from LIBOR, the Group has been in contact with the lenders regarding commencement of the transition, beginning with the review of the alternative reference rates that are available to it. Included within the contracts with the lenders are specific clauses relating to a replacement of the reference rate and as such the Group does not foresee any potential risk, disruption to business or any possible financial losses that could arise from the LIBOR transition.

(d) Basis of consolidation

(i) *Business Combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on

a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The subsidiaries are shown in Note 33.

(iii) *Non-controlling interest (NCI)*

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) *Interests in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

d) Basis of consolidation (Continued)

(v) Interests in equity-accounted investees

which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Functional and presentation currency

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenyan Shillings (KShs), which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within net foreign exchange gain. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income' or 'other expenses'

(f) Use of estimates and judgement

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(g) Foreign currency translation

(i) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as fair value through other comprehensive income, are included in other comprehensive income.

(ii) *Group Companies*

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2021) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Foreign currency translation (Continued)

(ii) Group Companies (continued)

in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

The financial statements for KCB Bank South Sudan Limited have been presented in line with IAS 29 for hyperinflationary economies. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. Refer to Note 48.

(h) Recognition of income and expenses

(i) *Interest income and expenses*

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income from other financial instruments at FVTPL.

(ii) *Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

(iii) *Risk premium*

Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are amortised into the profit or loss over the tenure of the loan.

(iv) *Fees and commission income and expenses*

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) Recognition of income and expenses (Continued)

(v) *Rental income*

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(vi) *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.

(i) Income Tax

(i) *Current income Tax*

Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

(ii) *Deferred Income Tax*

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(j) Financial assets and liabilities

(i) *Recognition and measurement*

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(ii) *Classification and subsequent measurement of financial instruments*

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets, the

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

IFRS 9 specifically requires:

amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income; and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

The Group considers all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Non-recourse loans

Non-recourse loan is a type of loan secured by collateral, which is usually property. If the borrower defaults, the Group can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

The guidelines/procedures on dealing with non-recourse loans as detailed in the Non-Performing Debts Management manual which summarily states that:

(a) It is not the Group's policy to "nurse" or warehouse properties until the market picks up but to dispose them into the market quickly and at the best price. Disposal methods should be reviewed continuously to ensure the most effective method is being used.

(b) While assets are awaiting disposal, the Group should make sure that proper administration is undertaken on these assets to protect their value.

(c) Asset disposal should start immediately when the asset becomes ready for sale. This is specifically defined as the time when:

  (i) The client surrenders voluntarily the asset or has agreed for the Group to sell the property.

  (ii) The Group is awarded possession of the property by legal or other means. As the case may be, titles and ownership documents have been transferred to the Group's name and registered with the appropriate Land Registry.

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.

Converting/liquidating the assets in the Group's possession now is still better than holding the assets for a projected upturn in market price in the future which often do not materialize.

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

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 5- Fair value of financial instruments.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased Originated Credit Impaired (POCI) financial assets (which are considered separately

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Impairment of financial assets (continued)

below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in Note 3.

  ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in Note 4, including details on how instruments are ranked when they are assessed on a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see Note 3).

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial instruments (Continued)

Definition of default (Continued)

This definition of default is used by the Group for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in Note 3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted assets given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See Note 3 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think- tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to Note 4).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition, loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted, if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Significant increase in credit risk (continued)

More information about significant increase in credit risk is provided in Note 4.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition.

The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par-amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Modification and derecognition of financia assets (continued)

included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve;
- or loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities

Fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities, the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

Notes (Continued)

2. Summary Of Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification and subsequent measurement of financial instruments (continued)

Financial assets (continued)

Modification and derecognition of financia assets (continued)

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the ranking is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at fair value through profit and loss (FVTPL) are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains, and losses are recognised in profit or loss.

Fair value is determined in the manner described in Note 5.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "interest income and expenses section" above.

Modification and derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(k) Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(k) Property and equipment (continued)

Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or at the expiration of

(ii) *Depreciation*

a lease contract for right of use assets. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each class of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) *Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurring repairs and maintenance costs are expensed as incurred.

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(m) Leases

The Group has adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e., for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2021.

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

The Group leases several retail network premises (branches) and vehicles. The branch leases typically run for a period of 6 years, with an option to renew the lease after that date. Lease payments are renegotiated after the expiry of the lease to reflect market rental values. Some leases provide for additional rent payments that are based on changes in local price indices. Leases for the vehicles typically run for a period of two years with no renewal options.

(i) *Group as a lessee*

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

Practical expedients applied

In applying IFRS 16, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(m) Leases (continued)

(i) Group as a lessee (continued)

- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

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 the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. 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 obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the 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 Group 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.

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

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

Short-term leases and leases of low-value assets

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

(ii) ***Group as a lessor***

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 31). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes is charged to the income statement.

(ii) *Defined benefit plans*

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income.

The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments.

Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) *Other post–employment obligations*

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

(iv) *Short-term benefits*

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity-based benefits and termination benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(p) Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

(q) Contingent liabilities and loan commitments

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

(r) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. Refer to Note 20.

(s) Dividends

Dividends are recognised as a liability in the period in which they are declared and approved.

(t) Sale and repurchase agreements

Securities sold under sale and repurchased agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions. Securities purchased from the Central Bank of Kenya under agreement to

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(t) Sale and repurchase agreements (continued)

resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(u) Related parties

This relates to transactions entered into between groups/entities at arms-length.

(v) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(w) Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

(x) 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 the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(y) Fair value measurements

IFRS 13, Fair Value Measurement, defines fair value as 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 (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. The standard explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

(z) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an 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.

(aa) Investment property

Investment property relate to collateral (mainly properties) transferred to the bank to extinguish outstanding loan balances which are in default. The Group holds these properties for a considerable period of time in expectation of capital appreciation

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. The gain or loss on disposal of investment property is recognised in profit or loss.

The fair value of investment property is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

(ab) Investment in associates

Associates are all entities over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This is generally the case where the Group holds between 20% and less than 50% of the voting rights of the entity. In assessing existence of significant influence, the Group considers among other parameters whether there is:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in the policy-making process and material transactions between the investor and the investee;
- Interchange of managerial personnel between the investor and the investee; and
- Provision of essential technical information by the investor to the investee

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

2. Summary of Significant Accounting Policies (Continued)

(ab) Investment in associates (Continued)

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividend received or receivable from associates are recognised as a reduction in the carrying amount of the investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

In certain instances, the requirement that significant influence arises from a 20% or more in investments can be invalidated where an entity can demonstrate that it does not have significant influence, or there is demonstrable presence of significant influence in an investment of less than 20% based on the above assessment criteria.

Investments in associates are accounted for using the equity method of accounting. The initial investment is recognised at cost of acquisition and any share of profit or loss from the investment is reflected as changes in the value of the investment.

Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

(ac) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical judgements in applying the Group's accounting policies

(a) Judgments

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets and liabilities sections of Note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk: As explained in note 1, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to Note 4(a) for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 1 and Note 4 for more details on ECL and Note 7 for more details on fair value measurement.

Notes (Continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(a) Judgments (Continued)

In the context of COVID-19, management judgmental adjustments at both the customer and portfolio levels have been adopted in order to account for model deficiencies and expert credit judgement applied following management review and challenge. Internal governance and controls were put in place in order to monitor the post-model adjustments based on the economic performance in the midst of the pandemic.

Hyperinflation accounting: The directors evaluated and determined the economy of South Sudan to be hyperinflationary. Significant judgments to be made considering guidelines provided in IAS 29. The financial statements and corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period.

Factors considered in determining and concluding that the South Sudan economy was hyperinflationary have been included under Note 48.

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) *Impairment losses on loans and advances*

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances accounts cutting across various industries. Assets with similar risk characteristics are ranked together for the purpose of determining the collective impairment in the Group.

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

(a) Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and determining the forward-looking information relevant to each scenario:

(b) When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

(c) Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 3 for more details, including analysis of the sensitivity of the reported ECL

(d) Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

(e) Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 5 for more details on fair value measurement.

Covid 19 impact on impairment losses on loans and advances

The COVID-19 pandemic has resulted in a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Group to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

The most substantial impact on the Group relates to credit risk due to increased allowances for credit losses in the year. The increased credit risk is majorly because of:

- Declining performance in certain sectors of the economy e.g., hospitality and education sectors hence increased possibility of default.

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For the Year Ended 31 December 2021

Notes (Continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(b) Assumptions and estimation uncertainties (continued)

(i) Impairment losses on loans and advances (continued)

Covid 19 impact on impairment losses on loans and advances (continued)

- Downward changes in credit ratings (both internal and external)
- Increased time to realization of collateral for some portfolios and sectors as well as reassessment of the quality of collateral
- Increased days past due for loans issued
- Macroeconomic factors that have impacted the forward-looking estimates
- Increased modification losses because of the restructurings.
- Increased write-offs of the loans that the Group is unlikely to recover.

The estimation of impairment losses on loans and advances includes an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models have used the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD).

Given the deteriorating macroeconomic environment, specific increases in PDs and LGDs were made to appropriately capture the COVID-19 environment.

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

(ii) ***Fair value of financial instruments***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) ***Retirement benefits***

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Refer to Note 47 for more information

(iv) ***Property and equipment***

Property and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

(v) ***Income taxes***

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

(vi) ***Leases***

The right of use is depreciated over the lease term considering the renewal option.

The Group will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business.

The Group will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

Notes (Continued)

3. Critical judgements in applying the Group's accounting policies (continued)

(b) Assumptions and estimation uncertainties (Continued)

(Vi) Leases (Continued)

Covid 19 impact on leases

At the onset of the COVID-19 pandemic, some of the Group's lessors advanced rent concessions which management has opted not to treat as a modification of contract as well as adjust the lease liability due to the amounts being insignificant.

COVID-19-related rent concessions

The Group has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

The Group negotiated rent concessions with its landlords for the majority of its premises as a result of the severe impact of the COVID-19 pandemic during the year. The Group applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its leases.

The Group continues to account for rent concessions relating to its leases under other applicable guidance in IFRS 16. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions is nil (2020: KShs 9.3 million).

4. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Executive Credit Committee, which is responsible for oversight 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 allocated to business unit credit officers. Larger facilities require approval by the Management Credit Committee or the Board Credit Committee as appropriate.

- *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- *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. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Board Credit Committee.

- *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 credit.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(a) Credit risk (Continued)

- department on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk

Significant increase in credit risk
The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings
In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes.

Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades.

The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Description	IFRS 9 Classification
10	Normal risk	Stage 1
20	Watch risk	Stage 2
30	Substandard risk	Stage 3
40	Doubtful risk	
50	Loss	

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarizes per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Quoted bond and credit default swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities. • Affordability metrics. • External data from credit reference agencies, including industry-standard credit scores.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's and S&P. The risk ratings are composed of a combination of the risk factors below. Each Risk factor has parameters which are assessed and the total score in each is mapped onto a rating.

Notes (Continued)

4. Financial Risk Management (Continued)
(a) Credit risk (Continued)

Risk Factor	Description	Weight
Financial Risk	Is the assessment of entity's assets & liabilities structure (i.e. the mix of long- and short-term debt, maturity structure, interest rates, collateralization and other elements), cash flows and P&L in the light of current financing conditions.	50%
Company	Is the assessment of the size and scope of the rated entity, which often drives its diversification in terms of products, customers and geography	10%
Management	Is the assessment of the quality and experience of the management team as well as its strategic objectives in light of the sector specifics.	10%
Banking Relationship	Is the assessment of the current and historical behaviour of the entity's with bank products	20%
Industry	Is the assessment of entity's future market, regulatory environment and industry environment with insights into competition, entry barriers and trends .	10%

Corporate
The corporate portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Staging	12-month weighted-average PD	Internal risk rating	Days past due
Grade 10	0.05%	AAA to A	0 - 30 days
Grade 20	12.611%	B- to C	31 – 89 days
Grade 30 – Grade 50	100%	Default	90 days and above

Retail & mortgage
The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Staging	12-month weighted-average PD Personal loans	12-month weighted-average PD Mortgage loans
Grade 10	5%	9%
Grade 20	57%	43%
Grade 30 – Grade 50	100%	100%

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Relationship between the Group's internal credit ratings and external ratings
The Group's rating method comprises 2 rating levels for instruments not in default (Stage 1 & 2) and one default class (stage 3). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of observed default trends. The Group's quantitative credit quality grading as compared to Central Bank of Kenya's prudential guidelines grading is summarised in the table below;

Staging	CBK grading	Days past due	Credit quality
Stage 1	Normal	Up to date within contractual terms or has less than 30 days arrears	Performing
Stage 2	Watch	31 to 90 days	Performing-SICR
Stage 3	Substandard	91 to 180 days	In Default
	Doubtful	181 to 360 days	
	Loss	above 360 days	

In addition to the standard credit ratings above, the Group also utilises other qualitative information relating to counterparties to determine their internal credit grading.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (continued)

Incorporation of forward-looking information

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

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

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2021 for the years 2021 to 2025, for Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi which are the countries where the Group operates and therefore is the country that has a material impact in ECLs.

Corporate

Macro-economic factor	2021	2022	2023	2024	2025
Use of IMF credit per capita, USD	0.00001	0.00001	0.00001	0.00001	0.00001
Private final consumption per capita, USD	0.00154	0.00167	0.00181	0.00195	0.00211
Net exports of goods & services per capita, LCU* (2010 prices)	(13,420.0)	(13,463.8)	(13,393.7)	(13,630.7)	(13,118.0)

Retail

Macro-economic factor	2021	2022	2023	2024	2025
Total government debt, USD	73,450.00	81,550.00	87,010.00	92,910.00	99,110.00
Private final consumption, USD	84,611.17	93,669.96	104,043.00	114,204.50	126,498.56
Government final consumption per capita, LCU* (2010 prices)	13,158.26	13,333.79	13,501.77	13,715.06	13,989.34
Net exports of goods & services per capita, USD	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
M2*, LCU*	3,450,660,610	3,761,220,070	4,099,729,870	4,468,705,560	4,870,889,060

Mortgage

Macro-economic factor	2021	2022	2023	2024	2025
Total government debt, USD	73,450.00	81,550.00	87,010.00	92,910.00	99,110.00
Private final consumption, USD	84,611.17	93,669.96	104,043.00	114,204.50	126,498.56
Government final consumption per capita, LCU (2010 prices)	13,158.26	13,333.79	13,501.77	13,715.06	13,989.34
Net exports of goods & services per capita, USD	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
Savings per capita, LCU*	0.0223	0.0239	0.0260	0.0276	0.0314
M2*, LCU*	3,450,660,610	3,761,220,070	4,099,729,870	4,468,705,560	4,870,889,060

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

*LCU – local currency unit

*M2 is a measure of the money supply that includes cash, checking deposits, and easily-convertible near money

Measurement of ECL

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

- A financial instrument that is not credit-impaired on initial recognition is classified under Stage 1 and has its credit risk continuously monitored by the Group. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Notes (Continued)

4. Financial Risk Management (Continued)
Measurement of ECL (Continued)

Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in computing expected loss in line with IFRS 9 are as follows:

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

- Significant dip in operating results of the borrowers
- Credit distress necessitated extension to the terms granted
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(b) *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:

Quantitative criteria: The borrower is more than 90 days past due on the contractual payments.

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
- The borrower is in breach of financial covenant(s)
- 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
- Increase in probability that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above has 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 is aligned to Central Bank of Kenya's prudential guidelines.

(c) *Measuring ECL – Inputs, assumptions and estimation techniques*
The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime 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 or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur, using a determined credit conversion factor.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment and multiplied together which effectively calculates an ECL.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. Where sufficient data is not available to estimate the 12 month PD transition into lifetime PDs, the Group interpolates its internal 12-month PD to external rating agencies long term proxies to estimate the lifetime PDs.

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

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis.

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Notes (Continued)

4. Financial Risk Management (Continued)

(c) Measuring ECL – Inputs, assumptions and estimation techniques (Continued)

- For revolving products, the exposure at default is predicted by taking current drawn 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 recoveries made post default. These vary by product type.

- For secured products, this is primarily based on expected recovery from collateral forced sale values, adjusted for time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically derived from past recoveries from past defaults of unsecured products or the residual unsecured portions of partly secured exposures.

(d) Forward looking information factor

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 are adjusted to the ECL. The forward looking economic variables have been adjusted by a management multiplier.

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. This is reviewed and monitored periodically.

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			
	2021		2020	
	-5% KShs millions	5% KShs millions	-5% KShs millions	5% KShs millions
Corporate portfolio	65	(65)	79	(79)
Retail portfolio	145	(145)	135	(135)

(e) Impaired financial assets

Impaired financial assets are those which the Group determines it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are classified under stage 3 in the Group's internal credit risk grading system and graded as grade 3 to 5 as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non-performing.

(f) Past due but not impaired financial assets

Financial assets where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. Loans under this category are no more than 90 days overdue.

(g) Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programmes and with no signs of impairment or distress.

Rankings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The rankings are reviewed on a regular basis to ensure that each Group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL. No collateral is held for these exposures.

Notes (Continued)

4. Financial Risk Management (Continued)
Rankings based on shared risks characteristics (Continued)

	Exposure (million)	External benchmark PD	External benchmark LGD
Cash and bank balances	71,612	Sovereign	S& P ratings
Financial assets held through FVOCI	139,704	Sovereign	S& P ratings
Financial assets held through FVTPL	5,462	Sovereign	S& P ratings
Financial assets held at amortized costs	131,127	Sovereign	S& P ratings
Loans and advances to banks	26,642	Corporate	S& P ratings
Other assets and prepayments	27,329	Corporate	S& P ratings
Off balance sheet	99,873	Corporate	S& P ratings

* Financial guarantees only

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Loans and advances to banks at amortised cost	Loans and advances to other banks	Note 22
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 26
Debt investment securities at amortised cost	Financial assets at amortised costs	Note 27
Debt investment securities at FVTOCI	Financial assets at FVOCI	Note 23
Loan commitments and financial guarantee contracts	None	Note 4
Other financial assets	Other financial assets	Note 4

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Loans and advances at amortised cost	Kenya KShs million	Tanzania KShs million	Uganda KShs million	Rwanda KShs million	South Sudan KShs million	Burundi KShs million	Total KShs million
31-Dec-21	659,912	22,748	11,998	42,070	1,679	3,158	741,565
31-Dec-20	611,226	19,674	7,846	17,453	939	3,034	660,172

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

The table below analyses the movement of the gross loans during the year.

Gross Loans

2021 Loans and advances to customers	Corporate KShs million	Mortgages KShs million	Retail KShs million	Total KShs million
Gross loans and advances to customers	**379,726**	**83,444**	**278,395**	**741,565**
Of which stage 1 and 2	274,655	71,761	273,489	619,905
Of which stage 3	105,071	11,683	4,906	121,660
Expected credit loss provisions	**47,700**	**3,485**	**18,561**	**69,746**
Of which stage 1 and 2	6,514	1,408	8,668	16,590
Of which stage 3	41,186	2,077	9,893	53,156
Net loans and advances to customers	**332,026**	**79,959**	**259,834**	**671,819**
Of which stage 1 and 2	268,141	70,353	264,821	603,315
Of which stage 3	63,885	9,606	4,987	68,504
2020				
Loans and advances to customers				
Gross loans and advances to customers	**333,498**	**78,729**	**247,945**	**660,172**
Of which stage 1 and 2	251,974	71,991	228,277	552,242
Of which stage 3	81,524	6,738	19,668	107,930
Expected credit loss provisions	**36,337**	**2,678**	**25,903**	**64,917**
Of which stage 1 and 2	3,589	759	12,254	16,602
Of which stage 3	32,748	1,919	13,649	48,316
Net loans and advances to customers	**297,161**	**76,051**	**222,042**	**595,255**
Of which stage 1 and 2	248,385	71,232	216,023	535,640
Of which stage 3	48,776	4,819	6,019	59,614

Total Group	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2021	**497,737**	**54,505**	**107,930**	**660,172**
Changes in the loss allowance				
– Transfer to stage 1	6,940	(7,539)	599	-
– Transfer to stage 2	(58,383)	58,140	243	-
– Transfer to stage 3	(23,059)	(3,831)	26,890	-
Net remeasurement of loss allowance	(48,734)	(4,360)	840	(52,254)
New financial assets originated or purchased	234,930	22,599	45,052	302,581
Financial assets that have been derecognised	(89,895)	(19,145)	(59,894)	(168,934)
Loans and advances as at 31 December 2021	**519,536**	**100,369**	**121,660**	**741,565**
Loans and advances as at 1 January 2020	**454,248**	**63,519**	**63,291**	**581,058**
Changes in the loss allowance				
– Transfer to stage 1	10,356	(7,362)	(2,994)	-
– Transfer to stage 2	(20,166)	21,870	(1,704)	-
– Transfer to stage 3	(3,006)	(22,811)	25,817	-
Net remeasurement of loss allowance	(18,631)	2,665	16,438	472
New financial assets originated or purchased	220,850	10,092	14,342	245,284
Financial assets that have been derecognised	(145,914)	(13,468)	(7,260)	(166,642)
Loans and advances as at 31 December 2020	**497,737**	**54,505**	**107,930**	**660,172**

Notes (Continued)

4. Financial Risk Management (Continued)

The tables below analyses the movement of the gross loans during the year per class of assets in the year ended 31 December 2021:

Corporate -Mortgage

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**18,543**	**3,079**	**1,719**	**23,341**
Changes in the loss allowance				
– Transfer to stage 1	(393)	(1,186)	1,579	-
– Transfer to stage 2	(1,405)	(819)	2,224	-
– Transfer to stage 3	(1,068)	(579)	1,647	-
Net remeasurement of loss allowance	276	(609)	(445)	(778)
New financial assets originated or purchased	6,182	713	22	6,917
Financial assets that have been derecognised	(1,890)	(230)	-	(2,120)
Loans and advances as at 31 December 2021	**20,245**	**369**	**6,746**	**27,360**

Corporate -Overdratfs

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**15,547**	**2,108**	**955**	**18,610**
Changes in the loss allowance				
– Transfer to stage 1	785	(481)	(304)	-
– Transfer to stage 2	(702)	700	2	-
– Transfer to stage 3	(122)	(192)	314	-
Net remeasurement of loss allowance	(1,130)	(352)	(210)	(1,692)
New financial assets originated or purchased	3,584	1,297	369	5,250
Financial assets that have been derecognised	(7,997)	(920)	(365)	(9,282)
Loans and advances as at 31 December 2021	**9,965**	**2,160**	**761**	**12,886**

Corporate -Term Loans

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**197,647**	**36,672**	**80,370**	**314,689**
Changes in the loss allowance				
– Transfer to stage 1	1,731	(1,649)	(82)	-
– Transfer to stage 2	(51,616)	53,712	(2,096)	-
– Transfer to stage 3	(17,997)	(1,361)	19,358	-
Net remeasurement of loss allowance	(6,400)	(1,191)	3,602	(3,989)
New financial assets originated or purchased	53,737	16,316	41,226	111,279
Financial assets that have been derecognised	(3,395)	(13,676)	(38,068)	(55,139)
Loans and advances as at 31 December 2021	**173,707**	**88,823**	**104,310**	**366,840**

Retail-Mortgage

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**46,997**	**3,373**	**4,485**	**54,855**
Changes in the loss allowance				
– Transfer to stage 1	2,321	(2,085)	(236)	-
– Transfer to stage 2	(1,195)	1,237	(42)	-
– Transfer to stage 3	(456)	(606)	1,062	-
Net remeasurement of loss allowance	(5,946)	(1,673)	(1,446)	(9,065)
New financial assets originated or purchased	13,605	2,191	1,740	17,536
Financial assets that have been derecognised	(6,303)	(313)	(626)	(7,242)
Loans and advances as at 31 December 2021	**49,023**	**2,124**	**4,937**	**56,084**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

Retail -Overdrafts

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**12,727**	**1,230**	**10,892**	**24,849**
Changes in the loss allowance				
– Transfer to stage 1	(16)	(30)	46	-
– Transfer to stage 2	(146)	140	6	-
– Transfer to stage 3	(322)	(129)	451	-
Net remeasurement of loss allowance	(135)	(37)	(153)	(325)
New financial assets originated or purchased	6,703	81	728	7,512
Financial assets that have been derecognised	(7,015)	(379)	(7,080)	(14,474)
Loans and advances as at 31 December 2021	**11,796**	**876**	**4,890**	**17,562**

Retail -Term Loans

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loans and advances as at 1 January 2021	**195,915**	**8,043**	**15,227**	**219,185**
Changes in the loss allowance				
– Transfer to stage 1	2,512	(2,108)	(404)	-
– Transfer to stage 2	(3,319)	3,170	149	-
– Transfer to stage 3	(3,094)	(964)	4,058	-
Net remeasurement of loss allowance	(35,399)	(498)	(508)	(36,405)
New financial assets originated or purchased	157,909	2,001	967	160,877
Financial assets that have been derecognised	(59,724)	(3,627)	(19,473)	(82,824)
Loans and advances as at 31 December 2021	**254,800**	**6,017**	**16**	**260,833**

Corporate -Mortgage

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	**12,558**	**2,454**	**1,779**	**16,791**
Changes in the loss allowance				
– Transfer to stage 1	1,860	(1,175)	(685)	-
– Transfer to stage 2	(1,790)	1,790	-	-
– Transfer to stage 3	(125)	(449)	574	-
Net remeasurement of loss allowance	(962)	(53)	98	(917)
New financial assets originated or purchased	8,980	1,405	-	10,385
Financial assets that have been derecognised	(1,978)	(893)	(47)	(2,918)
Loans and advances as at 31 December 2020	**18,543**	**3,079**	**1,719**	**23,341**

Corporate -Overdratfs

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	7,564	287	657	8,508
Changes in the loss allowance				
– Transfer to stage 1	243	(214)	(29)	-
– Transfer to stage 2	(835)	900	(65)	-
– Transfer to stage 3	(656)	(25)	681	-
Net remeasurement of loss allowance	5,738	882	93	6,713
New financial assets originated or purchased	6,611	500	-	7,111
Financial assets that have been derecognised	(3,118)	(222)	(382)	3,722
Loans and advances as at 31 December 2020	**15,547**	**2,108**	**955**	**18,610**

Notes (Continued)

4. Financial Risk Management (Continued)

Corporate -Term Loans

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	**254,732**	**37,757**	**29,279**	**321,768**
Changes in the loss allowance				
– Transfer to stage 1	6,034	(4,548)	(1,486)	-
– Transfer to stage 2	(15,842)	17,282	(1,440)	-
– Transfer to stage 3	(1,464)	(21,751)	23,215	-
Net remeasurement of loss allowance	4,498	1,887	12,267	18,652
New financial assets originated or purchased	(14,535)	17,751	23,042	26,258
Financial assets that have been derecognised	(35,776)	(11,706)	(4,507)	(51,989)
Loans and advances as at 31 December 2020	**197,647**	**36,672**	**80,370**	**314,689**

Retail-Mortgage

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	**40,966**	**2,261**	**3,148**	**46,375**
Changes in the loss allowance				
– Transfer to stage 1	1,812	(1,318)	(494)	-
– Transfer to stage 2	(1,605)	1,751	(144)	2
– Transfer to stage 3	(594)	(459)	1,053	-
Net remeasurement of loss allowance	(3,779)	(111)	134	(3,756)
New financial assets originated or purchased	13,755	1,460	1,012	16,227
Financial assets that have been derecognised	(3,558)	(211)	(224)	(3,993)
Loans and advances as at 31 December 2020	**46,997**	**3,373**	**4,485**	**54,855**

Retail -Overdrafts

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	**19,101**	**524**	**780**	**20,405**
Changes in the loss allowance				
– Transfer to stage 1	26	(7)	(19)	-
– Transfer to stage 2	(34)	37	(3)	-
– Transfer to stage 3	(112)	(61)	173	-
Net remeasurement of loss allowance	(43)	14	(2)	(31)
New financial assets originated or purchased	15,934	1,057	10,597	27,588
Financial assets that have been derecognised	(22,145)	(334)	(634)	(23,113)
Loans and advances as at 31 December 2020	**12,727**	**1,230**	**10,892**	**24,849**

Retail -Term Loans

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loans and advances as at 1 January 2020	**148,555**	**5,596**	**13,060**	**167,211**
Changes in the loss allowance				
– Transfer to stage 1	379	(99)	(280)	-
– Transfer to stage 2	(60)	111	(51)	-
– Transfer to stage 3	(55)	(64)	119	-
Net remeasurement of loss allowance	(24,083)	45	3,848	(20,190)
New financial assets originated or purchased	75,516	2,556	-	78,072
Financial assets that have been derecognised	(4,337)	(102)	(1,469)	(5,908)
Loans and advances as at 31 December 2020	**195,915**	**8,043**	**15,227**	**219,185**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

The tables below analyses the movement of the loss allowance during the year.

Total Group

	Stage 1 KShs million	Stage 2 L KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**14,428**	**5,042**	**45,447**	**64,917**
Changes in the loss allowance	-	-	-	
– Transfer to stage 1	386	(103)	(283)	-
– Transfer to stage 2	(206)	202	4	-
– Transfer to stage 3	(116)	(509)	625	-
Net remeasurement of loss allowance	(308)	1,309	7,974	8,975
New financial assets originated or purchased	4,927	1,034	18,156	24,117
Financial assets that have been derecognised	(7,832)	(1,664)	(18,767)	(28,263)
Loss allowance as at 31 December 2021	**11,279**	**5,311**	**53,156**	**69,746**
Loss allowance as at 1 January 2020	**18,509**	**7,783**	**19,395**	**45,687**
Changes in the loss allowance				
– Transfer to stage 1	1,641	(598)	(1,043)	-
– Transfer to stage 2	(196)	425	(229)	-
– Transfer to stage 3	(94)	(4,022)	4,116	-
Net remeasurement of loss allowance	67	1,281	15,430	16,778
New financial assets originated or purchased	6,780	2,265	13,332	22,377
Financial assets that have been derecognised	(12,279)	(2,092)	(5,554)	(19,925)
Loss allowance as at 31 December 2020	**14,428**	**5,042**	**45,447**	**64,917**

The tables below analyses the movement of the loss allowance during the year per class of assets

Corporate-Mortgage

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**237**	**135**	**766**	**1,138**
Changes in the loss allowance				
– Transfer to stage 1	33	(58)	25	-
– Transfer to stage 2	(36)	14	22	-
– Transfer to stage 3	(12)	(6)	18	-
Net remeasurement of loss allowance	(34)	525	308	799
New financial assets originated or purchased	123	5	6	134
Financial assets that have been derecognised	(8)	(5)	-	(13)
Loss allowance as at 31 December 2021	**303**	**610**	**1,145**	**2,058**
Corporate-Overdrafts				
Loss allowance as at 1 January 2021	**10**	**14**	**230**	**254**
Changes in the loss allowance				
– Transfer to stage 1	100	2	(102)	-
– Transfer to stage 2	-	1	(1)	-
– Transfer to stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(99)	(9)	(132)	(240)
New financial assets originated or purchased	13	1	58	72
Financial assets that have been derecognised	(16)	(9)	(3)	(28)
Loss allowance as at 31 December 2021	**7**	**-**	**51**	**58**

Notes (Continued)

4. Financial Risk Management (Continued)

Corporate-Term Loans

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**927**	**2,640**	**32,517**	**36,084**
Changes in the loss allowance				
– Transfer to stage 1	82	(7)	(75)	-
– Transfer to stage 2	(80)	82	(2)	-
– Transfer to stage 3	(20)	(376)	396	-
Net remeasurement of loss allowance	220	788	6,426	7,434
New financial assets originated or purchased	2,309	504	7,343	10,156
Financial assets that have been derecognised	70	(632)	(5,470)	(6,032)
Loss allowance as at 31 December 2021	**3,508**	**2,999**	**41,135**	**47,642**

Retail-Mortgage

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**288**	**101**	**1,151**	**1,540**
Changes in the loss allowance				
– Transfer to stage 1	77	8	(85)	-
– Transfer to stage 2	(7)	19	(12)	-
– Transfer to stage 3	(1)	(23)	24	-
Net remeasurement of loss allowance	(52)	(35)	(48)	(135)
New financial assets originated or purchased	119	19	72	210
Financial assets that have been derecognised	(16)	(2)	(170)	(188)
Loss allowance as at 31 December 2021	**408**	**87**	**932**	**1,427**

Retail-Overdrafts

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**1,217**	**437**	**1,131**	**2,785**
Changes in the loss allowance				
– Transfer to stage 1	26	-	(26)	-
– Transfer to stage 2	(16)	16	-	-
– Transfer to stage 3	(44)	(72)	116	-
Net remeasurement of loss allowance	37	11	78	126
New financial assets originated or purchased	1,273	736	7,176	9,185
Financial assets that have been derecognised	(938)	(421)	(6,582)	(7,941)
Loss allowance as at 31 December 2021	**1,555**	**707**	**1,893**	**4,155**

Retail-Term Loans

	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
Loss allowance as at 1 January 2021	**9,605**	**1,351**	**12,519**	**23,475**
Changes in the loss allowance				
– Transfer to stage 1	68	(48)	(20)	-
– Transfer to stage 2	(67)	70	(3)	-
– Transfer to stage 3	(38)	(32)	70	-
Net remeasurement of loss allowance	(380)	29	1,342	991
New financial assets originated or purchased	3,234	133	634	4,001
Financial assets that have been derecognised	(6,924)	(595)	(6,542)	(14,061)
Loss allowance as at 31 December 2021	**5,498**	**908**	**8,000**	**14,406**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

Corporate-Mortgage

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loss allowance as at 1 January 2020	**107**	**61**	**346**	**514**
Changes in the loss allowance				
– Transfer to stage 1	74	(74)	-	-
– Transfer to stage 2	(9)	9	-	-
– Transfer to stage 3	(3)	(9)	12	-
Net remeasurement of loss allowance	8	37	408	453
New financial assets originated or purchased	71	113	-	184
Financial assets that have been derecognised	(11)	(2)	-	(13)
Loss allowance as at 31 December 2020	**237**	**135**	**766**	**1,138**
Corporate-Overdrafts				
Loss allowance as at 1 January 2020	**4**	**6**	**105**	**115**
Changes in the loss allowance				
– Transfer to stage 1	132	(1)	(131)	-
– Transfer to stage 2	(3)	19	(16)	-
– Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(69)	(13)	477	395
New financial assets originated or purchased	6	3	-	9
Financial assets that have been derecognised	(60)	-	(205)	(265)
Loss allowance as at 31 December 2020	**10**	**14**	**230**	**254**

Corporate-Term Loans

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loss allowance as at 1 January 2020	**8,378**	**1,193**	**13,790**	**23,361**
Changes in the loss allowance				
– Transfer to stage 1	850	(381)	(469)	-
– Transfer to stage 2	(96)	224	(128)	-
– Transfer to stage 3	(4)	(3,923)	3,927	-
Net remeasurement of loss allowance	(8,250)	6,513	10,323	8,586
New financial assets originated or purchased	89	973	8,205	9,267
Financial assets that have been derecognised	(40)	(1,959)	(3,131)	(5,130)
Loss allowance as at 31 December 2020	**927**	**2,640**	**32,517**	**36,084**
Retail-Mortgage				
Loss allowance as at 1 January 2020	**129**	**45**	**521**	**695**
Changes in the loss allowance				
– Transfer to stage 1	84	(15)	(69)	-
– Transfer to stage 2	(6)	25	(19)	-
– Transfer to stage 3	(3)	(8)	11	-
Net remeasurement of loss allowance	7	47	729	783
New financial assets originated or purchased	89	8	-	97
Financial assets that have been derecognised	(12)	(1)	(22)	(35)
Loss allowance as at 31 December 2020	**288**	**101**	**1,151**	**1,540**

Notes (Continued)

4. Financial Risk Management (Continued)

Retail-Overdrafts

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loss allowance as at 1 January 2020	**549**	**359**	**511**	**1,419**
Changes in the loss allowance				
– Transfer to stage 1	16	-	(16)	-
– Transfer to stage 2	(6)	9	(3)	-
– Transfer to stage 3	(14)	-	14	-
Net remeasurement of loss allowance	403	26	338	767
New financial assets originated or purchased	510	43	607	1,160
Financial assets that have been derecognised	(241)	-	(320)	(561)
Loss allowance as at 31 December 2020	**1,217**	**437**	**1,131**	**2,785**

Retail-Term Loans

	Stage 1 12-month ECL KShs million	Stage 2 Lifetime ECL KShs million	Stage 3 Lifetime ECL KShs million	Total KShs million
Loss allowance as at 1 January 2020	**9,342**	**6,119**	**4,122**	**19,583**
Changes in the loss allowance				
– Transfer to stage 1	484	(127)	(357)	-
– Transfer to stage 2	(76)	141	(65)	-
– Transfer to stage 3	(70)	(82)	152	-
Net remeasurement of loss allowance	198	58	4,915	5,171
New financial assets originated or purchased	11,641	(4,628)	5,628	12,641
Financial assets that have been derecognised	(11,914)	(130)	(1,876)	(13,920)
Loss allowance as at 31 December 2020	**9,605**	**1,351**	**12,519**	**23,475**

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Notes (Continued)

4. Financial Risk Management (Continued)
Other Financial Assets and cash

	Cash & Central Bank Balances KShs million	Loans to Banks KShs million	Financial assets FVTOCI KShs million	Financial assets FVTPL KShs million	Financial assets Armotized cost KShs million	Total KShs million
Other Financial Assets						
Gross carrying amount as at 1 January 2021	**64,608**	**23,706**	**94,284**	**5,143**	**111,357**	**299,098**
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	7,004	2,936	66,600	2,550	42,407	121,497
Financial assets that have been derecognised	-	-	(21,180)	(2,231)	(22,637)	(46,048)
Other changes	-	-	-	-	-	-
Gross carrying amount as at 31 December 2021	**71,612**	**26,642**	**139,704**	**5,462**	**131,127**	**374,547**
Gross carrying amount as at 1 January 2020	**83,235**	**25,174**	**70,614**	**1,651**	**96,977**	**277,651**
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	5,420	3,461	23,670	3,492	17,432	53,475
Financial assets that have been derecognised	(24,047)	(4,929)	-	-	(3,052)	(32,028)
Other changes	-	-	-	-	-	-
Gross carrying amount as at 31 December 2020	**64,608**	**23,706**	**94,284**	**5,143**	**111,357**	**299,098**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value.

Notes (Continued)

4. Financial Risk Management (Continued)
Credit quality – continued

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see Note 1 Presentation of allowance for ECL).

The Group does not hold any lease receivables.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is KShs 9,169 at 31 December 2021 (2020: KShs 8,279 million). As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 2021		Year ended 2020	
	Gross carrying amount KShs million	Loss allowance KShs million	Gross carrying amount KShs million	Loss allowance KShs million
Loans and advances to customers				
0-29 days	526,515	22,312	475,620	12,089
30-59 days	22,481	611	28,603	1,926
60-89 days	38,880	1,218	2,963	9
90-180 days	19,916	3,763	26,099	8,325
More than 181 days	133,773	41,842	126,887	42,568
Total	**741,565**	**69,746**	**660,172**	**64,917**

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.

	Year ended 2021 KShs million	Year ended 2020 KShs million
Financial assets (with loss allowance based on lifetime ECL) modified during the period		
Gross carrying amount before modification	743	96,461
Loss allowance before modification	10	(2,751)
Net amortised cost before modification	**753**	**93,710**
Net modification gain/(loss)	-	-
Net amortised cost after modification	**753**	**93,710**

	Year ended 2021 KShs million	Year ended 2020 KShs million
Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL		
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	749	53

Collateral held as security and other credit enhancements
The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
Credit quality – Continued
Collateral held as security and other credit enhancements - Continued

The Group also holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2021. There was no change in the Group's collateral policy during the year.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)
The Group does not hold any derivatives.

Mortgage lending
The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

	Year ended 2021		Year ended 2020	
Mortgage lending LTV ratio	Gross carrying amount KShs million	Loss allowance KShs million	Gross carrying KShs million	Loss allowance KShs million
Less than 50%	36,307	1,223	51,729	854
51-70%	13,088	1,331	7,098	107
71-90%	9,383	1,016	7,928	807
91-100%	19,033	113	1,900	59
More than 100%	26,564	1,735	13,772	1,435
Total	**104,375**	**5,418**	**82,427**	**3,262**

	Year ended 2021		Year ended 2020	
	Gross carrying amount KShs million	Loss allowance KShs million	Gross carrying amount KShs million	Loss allowance KShs million
Credit impaired – mortgage lending LTV ratio				
Less than 50%	3,737	418	2,844	419
51-70%	3,106	684	1,670	411
71-90%	3,469	904	7,550	3,413
91-100%	1,364	60	145	56
More than 100%	6,523	1,270	17,542	1,139
Total	**18,199**	**3,336**	**29,751**	**5,438**

Personal lending
The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending
The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2021 the net carrying amount of loans and advances to corporate customers was KShs 338m (2020 – KShs 333m) and the value of the respective collateral was KShs 2,751m (2020 – KShs 2,522m).

Investment securities
The Group holds investment securities measured at amortised cost with a carrying amount of KShs 131 million (2020: 111 million) and at FVTOCI with a carrying amount of KShs 138 m (2020: 94 million). The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset backed securities, which are secured by financial assets.

Lease receivables
The Group does not have any lease receivables.

Assets obtained by taking possession of collateral
The Group obtained financial assets during the year by taking possession of collateral held as security against loans and advances. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

i. *Past due but not impaired loans and advances*
Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the

Notes (Continued)

4. Financial Risk Management (Continued)
Credit quality – Continued
Lease receivables – Continued

Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

	GROUP		COMPANY	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Less than 60 days	84,609	61,228	-	-
Between 60 and 120 days	19,630	7,839	-	-
Greater than 120 days	10,237	22,938	-	-
	114,476	**92,005**	**-**	**-**

Credit-related commitment risk

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

ii. *Write-off policy*

The Group writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

iii. *Collateral on loans and advances*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and 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.

iv. *Concentration of credit risk*

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		COMPANY	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Personal/household	263,721	237,501	-	-
Real Estate	124,937	114,388	-	-
Manufacturing	91,682	85,865	-	-
Building and construction	55,713	49,295	-	-
Trade	82,459	66,739	-	-
Financial services	11,256	9,519	-	-
Transport and communication	42,319	36,578	-	-
Tourism, restaurants and hotels	35,061	30,152	-	-
Energy and water	12,592	11,855	-	-
Agriculture	21,244	17,820	-	-
Mining and quarrying	581	460	-	-
	741,565	**660,172**	**-**	**-**

v. *Fair value of collateral held*

The Group 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.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
Credit quality – Continued
Lease receivables – Continued

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group'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.

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 2021 and 31 December 2020. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Impaired loans	108,887	53,641	-	-
Performing loans	2,641,941	2,468,594	-	-
	2,750,828	**2,522,235**	**-**	**-**

(b) Liquidity risk

Liquidity risk is the risk that the Group, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

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.

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

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.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2021	2020
At close of the year	39.3%	36.1%
Average for the year	39.5%	38.6%
Maximum for the year	41.3%	40.1%
Minimum for the year	37.3%	36.1%

Notes (Continued)

4. Financial Risk Management (Continued)
(b) Liquidity risk – Continued

The tables below summarize the Group' and Company's liquidity risk as at 31 December 2021 and 31 December 2020, categorized into relevant maturity groupings based on the remaining contractual maturities.

Group

	Up to 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
At 31 December 2021						
Cash and bank balances	71,612	-	-	-	-	71,612
Loans and advances to Banks	24,253	-	1,247	-	1,257	26,757
Financial assets at FVTPL	309	775	684	1283	4,709	7,760
Financial Assets at amortised cost	626	320	11,099	26,003	170,640	208,688
Financial Assets at fair value through OCI	5,136	10,007	24,726	27,446	137,552	204,867
Loans and advances to customers	57,745	15,679	84,870	279,608	501,677	939,579
Other assets and prepayments	27,329	-	-	-	-	27,329
Total financial assets	**187,010**	**26,781**	**122,626**	**334,340**	**815,835**	**1,486,592**
Deposits from banks	36,347	9,893	1,537	94	-	47,871
Deposits from customers	676,895	90,578	63,475	7,443	263	838,654
Retirement benefits obligation	-	-	458	-	-	458
Borrowings	20,550	136	849	19,787	1,988	43,310
Lease liabilities	-	-	-	-	6,681	6,681
Payables and accrued expenses	30,208	-	-	-	-	30,208
Total financial liabilities	**764,000**	**100,607**	**66,319**	**27,324**	**8,932**	**967,182**
Net statement of financial exposure	**(576,990)**	**(73,826)**	**56,307**	**307,016**	**806,903**	**519,410**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(b) Liquidity risk **– Continued**

Company

	Up to 1month KShs'000	1 - 3 months KShs'000	3 - 12months KShs'000	1 - 5 years KShs'000	Over 5 years KShs'000	Total KShs'000
At 31 December 2021						
Cash and bank balances	517	-	-	-	-	517
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	1,800	-	-	-	-	1,800
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Other assets	4	-	-	-	-	4
Total financial assets	**2,321**	**-**	**-**	**-**	**-**	**2,321**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	606	-	-	-	-	606
Total financial liabilities	**606**	**-**	**-**	**-**	**-**	**606**
Net statement of financial exposure	**1,715**	**-**	**-**	**-**	**-**	**1,715**

Notes (Continued)

4. Financial Risk Management (Continued)
(b) Liquidity risk – Continued

Group

	Up to 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
At 31 December 2020						
Cash and balances with Central Banks	50,937	952	1,330	11,101	288	64,608
Loans and advances to Banks	21,655	651	895	-	561	23,762
Financial assets at FVTPL	3,124	2,056	-	-	-	5,180
Financial Assets at amortised cost	237	381	1,514	30,102	147,393	179,627
Financial Assets at fair value through OCI	4,308	14,608	16,077	12,068	87,736	134,797
Loans and advances to customers	55,419	86,763	53,867	250,531	343,923	790,503
Other assets	38,288	33	562	115	4,164	43,162
Total financial assets	**173,968**	**105,444**	**74,245**	**303,917**	**584,065**	**1,241,639**
Deposits from banks	15,818	3,880	-	-	-	19,698
Deposits from customers	645,964	64,572	54,766	3,285	-	768,587
Retirement benefits obligation	-	-	-	-	177	177
Borrowings	-	514	702	21,393	19,850	42,459
Lease liabilities	29	57	311	2,394	4,067	6,858
Other liabilities	2,620	1,004	5,948	820	4,036	14,428
Total financial liabilities	**664,431**	**70,027**	**61,727**	**27,892**	**28,130**	**852,207**
Net statement of financial exposure	**(490,463)**	**35,417**	**12,518**	**276,025**	**555,935**	**389,432**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(b) Liquidity risk – Continued

Company

	Up to 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
At 31 December 2020						
Cash and balances with Central Banks	1,147	-	-	-	-	1,147
Loans and advances to Banks	-	-	-	-	-	-
Balances due from related companies	212	-	-	-	-	212
Financial assets at FVTPL	-	-	-	-	-	-
Financial Assets at amortised cost	-	-	-	-	-	-
Financial Assets at fair value through OCI	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Other assets	33	-	-	-	-	33
Total financial assets	**1,392**	**-**	**-**	**-**	**-**	**1,392**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Retirement benefits obligation	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	47	-	-	-	-	47
Due to related parties	3,553	-	-	-	-	3,553
Total financial liabilities	**3,600**	**-**	**-**	**-**	**-**	**3,600**
Net statement of financial exposure	**(2,208)**	**-**	**-**	**-**	**-**	**(2,208)**

Notes (Continued)

4. Financial Risk Management (Continued)
(b) Liquidity risk – Continued

(c) Market risk

i. *Currency risk*

The Group takes on exposure to 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 and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non-trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2021 and 31 December 2020:

	GROUP		COMPANY	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Assets in foreign currencies	202,788	181,299	-	-
Liabilities in foreign currencies	(183,808)	(165,245)	-	-
Net foreign currency exposure at the end of the year	**18,980**	**16,054**	**-**	**-**

	USD KShs million	GBP KShs million	EURO KShs million	OTHER KShs million	Total KShs million
31 December 2021:					
Assets					
Cash and bank balances	20,045	588	2,997	320	23,950
Loans and advances to customers	149,123	4	1,489	-	150,616
Placements with Banks	9,656	351	1,647	222	11,876
Other assets	16,008	1	158	179	16,346
At 31 December 2021	**194,832**	**944**	**6,291**	**721**	**202,788**
Liabilities					
Deposits from banks	5,804	10	140	4	5,958
Deposits from customers	129,268	632	4,751	322	134,973
Other liabilities	45,705	25	163	(3,016)	42,877
At 31 December 2021	**180,777**	**667**	**5,054**	**(2,690)**	**183,808**
Net statement of financial position exposure	**14,055**	**277**	**1,237**	**3,411**	**18,980**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(c) Market risk (continued)
(i) Currency risk – continued

	USD KShs million	GBP KShs million	EURO KShs million	OTHER KShs million	Total KShs million
31 December 2020:					
Assets					
Cash and bank balances	25,295	576	3,778	804	**30,453**
Loans and advances to customers	122,134	14	1,631	-	**123,779**
Placements with banks	5,761	271	785	70	**6,887**
Other assets	19,899	17	101	163	**20,180**
At 31 December 2020	**173,089**	**878**	**6,295**	**1,037**	**181,299**
Liabilities					
Deposits from banks	1,920	18	101	1	**2,040**
Deposits from customers	103,970	815	5,481	329	**110,595**
Other liabilities	52,288	33	101	188	**52,610**
At 31 December 2020	**158,178**	**866**	**5,683**	**518**	**165,245**
Net statement of financial position exposure	**14,911**	**12**	**612**	**519**	**16,054**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

The group manages the currency risk through cross currency swaps, 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.

Notes (Continued)

4. Financial Risk Management (Continued)
(c) Market risk (Continued)
(i) Currency risk – Continued

	At 31 December 2021			At 31 December 2020		
	Currency Carrying Amount KShs million	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
KShs million						
Assets						
USD	194,831	(19,483)	19,483	173,089	(17,309)	17,309
GBP	944	(94)	94	878	(88)	88
Euro	6,291	(629)	629	6,295	(630)	630
Other	722	(72)	72	1,037	(104)	104
		(20,278)	**20,278**		**(18,130)**	**18,130**
Liabilities						
USD	180,777	18,078	(18,078)	158,178	(15,818)	15,818
GBP	667	67	(67)	866	(87)	87
Euro	5,054	505	(505)	5,683	(568)	568
Others	(2,690)	(269)	269	518	(52)	52
		18,381	**(18,381)**		**(16,525)**	**16,525**
Increase/(decrease)		(1,897)	1,897		(1,605)	1,605
Tax charge at 30%		(569)	569		(482)	482
Effect on net profit		(1,329)	1,329		(1,124)	1,124
As a percentage of net profit		(3.97%)	3.97%		(5.73%)	5.73%

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 1,329 million (2020: KShs 1,124 million) lower/higher.

ii. *Interest rate risk*

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(c) Market risk (Continued)
(ii) Interest rate risk - Continued

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

To manage interest rate risk the group has a robust Assets and Liabilities Committee which reviews daily cash management, monitors daily liquidity limits of loan to deposit ratio and interbank borrowing. The Group also performs stress testing of liquid assets and has a contingency funding plan to ensure severe liquidity gaps are adequately managed. The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

	Weighted interest rates	Up to 1 Month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Non-interest bearing KShs million	Total KShs million
As at 31 December 2021:								
Cash and bank balances	-	-	-	-	-	-	71,612	71,612
Loans and advances to Banks	2.8%	24,253	-	1,234	-	1,155	-	26,642
Financial assets at fair value through profit or loss	11.1%	309	775	639	982	2,757	-	5,462
Financial assets fair value through other comprehensive income	11.1%	5,136	9,918	23,113	21,001	80,536	-	139,704
Financial assets held at amortised cost	11.1%	626	320	10,375	19,897	99,909	-	131,127
Loans and advances to customers	10.2%	57,745	15,679	79,696	217,843	304,518	-	675,481
Other assets and prepayments	-	-	-	-	-	-	27,329	27,329
Total assets		**88,069**	**26,692**	**115,057**	**259,723**	**488,875**	**98,941**	**1,077,357**
Deposits from banks	2.5%	36,347	9,893	1,537	94	-	-	47,871
Deposits from customers	5.1%	676,895	90,578	62,457	6,980	231	-	837,141
Retirement benefits obligation	4.2%	-	-	-	-	-	458	458
Borrowings	-	24893	136	829	10,062	1,642	-	37,562
Lease liability	-	-	-	-	-	-	6,681	6,681
Payables and accrued expenses	-	-	-	-	-	-	30,208	30,208
Total liabilities	**-**	**738,135**	**100,607**	**64,823**	**17,136**	**1,873**	**37,347**	**959,921**
Interest rate sensitivity gap	**-**	**(650,066)**	**(73,915)**	**50,234**	**242,587**	**487,002**	**61,594**	**117,436**
Off- balance sheet assets and capital commitments	**-**	**6,229**	**19,494**	**47,075**	**21,614**	**606**	**-**	**95,018**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - Continued

	Weighted interest rates	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Non-interest bearing KShs million	Total KShs million
As at 31 December 2021:								
Cash and bank balances	0.00%	-	-	-	-	-	517	**517**
Loans and advances to banks	0.00%	-	-	-	-	-	-	**-**
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	**-**
Amounts due from related companies	0.00%	-	-	-	-	-	1,800	**1,800**
Other assets and prepayments	0.00%	-	-	-	-	-	4	**4**
Total assets		**-**	**-**	**-**	**-**	**-**	**2,321**	**2,321**
Deposits from banks	0.00%	-	-	-	-	-	-	**-**
Deposits from customers	0.00%	-	-	-	-	-	-	**-**
Payables to related parties	0.00%	-	-	-	-	-	-	**-**
Payables and accrued expenses	0.00%	-	-	-	-	-	-	**-**
Borrowings	0.00%	-	-	-	-	-	606	**606**
Total liabilities and equity		-	-	-	-	-	606	**606**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**1,715**	**1,715**

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For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)
(c) Market risk (Continued)
(ii) Interest rate risk - Continued
Group

	Weighted interest rates	Up to 1 month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Non-interest bearing KShs million	Total KShs million
As at 31 December 2020:								
Cash and balances with Central Banks	0.00%	50,937	952	1,330	11,101	288	-	64,608
Loans and advances to banks	1.70%	21,655	649	886	-	516	-	23,706
Financial assets at FVOCI	11.30%	4,308	14,345	15,028	9,234	51,369	-	94,284
Financial assets at FVTPL	11.30%	3,124	2,019	-	-	-	-	5,143
Investment in accounted for using equity method	0.00%	-	-	-	-	-	600	600
Other assets and prepayments	0.00%	-	-	-	-	-	43,162	43,162
Loans and advances to customers	10.50%	55,419	85,303	50,583	195,189	208,761	-	595,255
Financial assets at amortised cost	11.30%	237	374	1,415	23,033	86,298	-	111,357
Total assets		**135,680**	**103,642**	**69,242**	**238,557**	**347,232**	**43,762**	**938,115**
Deposits from banks	4.70%	15,818	3,850	-	-	-	-	19,668
Deposits from customers	2.60%	645,964	64,291	53,888	3,081	-	-	767,224
Retirement benefits obligation	0.00%	-	-	-	-	-	177	177
Lease liability	0.00%	-	8	490	1,599	2,960	1,801	6,858
Payables and accrued expenses	0.00%	-	-	-	-	-	14,428	14,428
Borrowings	3.90%	-	511	685	19,442	16,394	-	37,032
Total liabilities and equity		**661,782**	**68,660**	**55,063**	**24,122**	**19,354**	**16,406**	**845,387**
Interest rate sensitivity gap		**(526,102)**	**34,982**	**14,179**	**214,435**	**327,878**	**27,356**	**92,728**

Notes (Continued)

4. Financial Risk Management (Continued)
(c) Market risk (Continued)
(ii) Interest rate risk - Continued
Company

	Weighted interest rates	Up to 1month KShs million	1 - 3 months KShs million	3 - 12 months KShs million	1 - 5 years KShs million	Over 5 years KShs million	Non-interest bearing KShs million	Total KShs million
As at 31 December 2020:								
Cash and balances with Central Banks	0.00%	-	-	-	-	-	1,147	1,147
Loans and advances to banks	0.00%	-	-	-	-	-	-	-
Financial assets at FVOCI	0.00%	-	-	-	-	-	-	-
Amounts due from related companies	0.00%	-	-	-	-	-	212	212
Other assets and prepayments	0.00%	-	-	-	-	-	33	33
Total assets		**-**	**-**	**-**	**-**	**-**	**1,392**	**1,392**
Deposits from banks	0.00%	-	-	-	-	-	-	-
Deposits from customers	0.00%	-	-	-	-	-	-	-
Payables to related parties	0.00%	-	-	-	-	-	3,353	3,353
Payables and accrued expenses	0.00%	-	-	-	-	-	47	47
Borrowings	0.00%	-	-	-	-	-	-	-
Total liabilities and equity		**-**	**-**	**-**	**-**	**-**	**3,400**	**3,400**
Interest rate sensitivity gap		**-**	**-**	**-**	**-**	**-**	**(2,008)**	**(2,008)**

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk - Continued

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in KShs millions):

	2021			2020		
	KShs million amount	1% Increase	1% Decrease	Carrying amount	1% Increase	1% Decrease
Cash and balances with Central Banks	71,300	(716)	716	64,608	(646)	646
Loans and advances to banks	26,308	(266)	266	23,706	(237)	237
Financial assets at FVTPL	5,456	(55)	55	-	-	-
Financial assets at FVOCI	138,775	(1,388)	1,388	94,284	(943)	943
Investment property	10,666	(107)	107	6,035	(60)	60
Other assets and prepayments	25,882	(259)	259	650	(7)	7
Loans and advances to customers (Net)	672,520	(6,725)	6,725	595,255	(5,953)	5,953
Financial assets at amortised cost	130,525	(1,305)	1,305	111,357	(1,114)	1,114
	1,081,432	**(10,821)**	**10,821**	**895,895**	**(8,960)**	**8,959**
Liabilities & Equity						
Deposits from banks	47,504	478	478	19,668	197	(197)
Deposits from customers	835,298	8,371	8,371	767,224	7,672	(7,672)
Retirement benefits obligations	458	5	(5)	177	2	(2)
Other liabilities and accrued expenses	26,074	261	(261)	9,765	98	(98)
Borrowings	37,518	375	(375)	37,032	370	(370)
	946,852	**9,490**	**9,490**	**833,866**	**8,339**	**(8,339)**
Net interest income Increase/(decrease)		(1,331)	1,331		(620)	620
Tax Charge @ 30%		399	(399)		186	(186)
Impact on profit after tax	**-**	**(932)**	**932**	**-**	**(434)**	**434**

Market risk measurement techniques

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

iii. *Price risk*

The Group is exposed to equity securities price risk because of investments in Kenya Mortgage Refinance Company shares. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Directors.

Value at risk

The Group applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. Interest rate risk in the non-trading book is also measured using interest rate repricing gap analysis VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate.

The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The VaR is calculated as per the below standard parameters:

- Confidence level - 99%
- Holding Period – 10 Days
- Historical Data – 5 years

Notes (Continued)

4. Financial Risk Management (Continued)

(c) Market risk (Continued)

(iii) Price risk (Continued)

Value at risk (Continued)

The VaR is reported to the Board as part of the ICAAP process. The VaR limits will be established for all trading portfolio operations and allocated to Business Units. Average daily VAR for the KCB Kenya was KShs 1,296 million (2020: KShs 2,862 million). The quality of the VaR model is continuously monitored by back-testing the VaR results.

12 months to 31 Dec 2021

Stress VaR KShs. million	Average	High	Low
Interest rate risk	1,297	1,583	1,133
Foreign exchange risk	8	21	0
Total VaR	1,296	1,583	1,132

12 months to 31 Dec 2020

KShs. million	Average	High	Low
Interest rate risk	2,899	3,929	1,676
Foreign exchange risk	5	15	1
Total VaR	2,862	3,930	1,450

Stress tests

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

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

(d) Off balance sheet items

i. Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 45) are summarised in the table below.

ii. Off balance sheet financial instruments

Off balance sheet letters of credit and guarantees (Note 46) are also included in the table below, based on the earliest contractual maturity date.

iii. Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases.

iv. Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 45) are summarised in the table below

	No later than 1 year KShs million	1-5 years KShs million	Over 5 years KShs million	Total KShs million
At 31 December 2021				
Loan commitments	28,819	-	-	28,819
Off balance sheet financial instruments	76,475	22,116	606	99,197
Operating lease commitments	811	3,572	1,029	5,412
Capital commitments	2,682	-	-	2,682
Total	**108,787**	**25,688**	**1,635**	**136,110**
At 31 December 2020				
Loan commitments	19,173	-	-	19,173
Off balance sheet financial instruments	65,605	11,691	24	77,320
Operating lease commitments	762	4,365	1,259	6,386
Capital commitments	1,312	-	-	1,312
Total	**86,852**	**16,056**	**1,283**	**104,191**

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Notes (Continued)

5. Fair Value of Financial Instruments

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2021 Group

	Carrying amount				Fair value			
	FVOCI KShs million	FVTPL KShs million	At amortised cost KShs million	Total carrying amount KShs million	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
Assets								
Financial assets								
Cash and bank balances	-	-	71,612	71,612	-	71,612	-	71,612
Due from other banks	-	-	26,642	26,642	-	26,642	-	26,642
Financial assets at amortized cost	-	-	131,127	131,127	-	131,127	-	131,127
Financial assets at FVOCI	139,704	-	-	139,704	139,704	-	-	139,704
Financial assets at FVPL	-	5,462	-	5,462	-	5,462	-	5,462
Loans and advances to customers at amortised cost	-	-	671,819	671,819	-	671,819	-	671,819
Loans and advances at fair value through profit and loss	-	3,662	-	3,662	-	3,662	-	3,662
Other assets and prepayments	-	-	27,329	27,329	-	27,329	-	27,329
Total financial assets	**139,704**	**9,124**	**928,529**	**1,077,357**	**139,704**	**937,653**	**-**	**1,077,357**
Due to other banks	-	-	47,817	47,817	-	47,817	-	47,817
Deposits from customers	-	-	837,141	837,141	-	837,141	-	837,141
Payables and accrued expenses	-	-	30,208	30,208	-	30,208	-	30,208
Borrowings	-	-	37,561	37,561	-	37,561	-	37,561
Total financial liabilities	**-**	**-**	**952,727**	**952,727**	**-**	**952,727**	**-**	**952,727**

Notes (Continued)

(a) Accounting classification and fair values (continued)
2020 Group

	Carrying amount				Fair value			
	FVTOCI KShs million	FVTPL KShs million	At amortised cost KShs million	Total KShs million	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
Assets								
Financial assets								
Cash and balances with Central Banks	-	-	64,608	64,608	-	64,608	-	64,608
Due from other banks	-	-	23,706	23,706	-	23,706	-	23,706
Financial assets at amortized cost	-	-	111,357	111,357		111,357	-	111,357
Financial assets at FVOCI	5,143	-	94,284	99,427	99,427	-	-	99,427
Loans and advances to customers	-	-	591,859	591,859	-	591,859	-	591,859
Loans and advances at FVTPL	-	3,396	-	3,396	-	-	3,396	3,396
Other assets and prepayments	-	-	43,162	43,162	-	43,162	-	43,162
Total financial assets	**5,143**	**3,396**	**928,976**	**937,515**	**99,427**	**834,692**	**3,396**	**937,515**
Liabilities								
Due to other banks	-	-	19,668	19,668	-	19,668	-	19,668
Deposits from customers	-	-	767,224	767,224	-	767,224	-	767,224
Payables and accrued expenses	-	-	14,428	14,428	-	14,428	-	14,428
Long term debt	-	-	37,032	37,032	-	37,032	-	37,032
Total financial liabilities	**-**	**-**	**838,352**	**838,352**	**-**	**838,352**	**-**	**838,352**

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For the Year Ended 31 December 2021

Notes (Continued)

5. Fair Value of Financial Instruments (Continued)

(a) Accounting classification and fair values (Continued)

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 296 million (2020: KShs 312 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and bank balances are measured at amortized cost and their fair value approximates their carrying amount.

(b) Reconciliation of level 3 items

	KShs million
Year ended 31 December 2021	
At start of year	6,035
Fair value loss	(910)
Additions	5,541
At end of year	**10,666**
Transfers into or out of level 3	-
At end of year	**10,666**
Year ended 31 December 2020	
At start of year	5,642
Fair value gain	393
At end of year	**6,035**
Transfers into or out of level 3	-
At end of year	**6,035**

(c) Valuation hierarchy

The table below presents the Group's assets that are measured at fair value the end of the year.

Financial	Fair value as at 31 December 2021 KShs million	Fair value as at 31 December 2020 KShs million	Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs
Assets					
Financial assets					
At FVTPL	5,462	5,143	Level 1	Quoted bid prices in an active market	N/A
AT FVOCI	139,704	94,284	Level 1	Quoted bid prices in an active market	N/A
Loans and advances at FVPL	3,662	3,396	Level 2	Valuation based on future operations of an entity	Discounted cashflows
Total assets	**148,828**	**99,427**			

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Notes (Continued)

6. Management of Capital

Regulatory capital – Kenya

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile
- promotes public confidence in the Group.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk-weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- hold the minimum level of regulatory capital of KShs 1 billion.
- Total risk-weighted assets, plus risk-weighted off- balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
  - a core capital of not less than 8% of its total deposit liabilities
  - a total capital of not less than 14.5% of its total risk-weighted assets, plus risk-weighted off-balance sheet items.

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

- Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.
- Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The regulatory capital position for the Group's banking subsidiaries was as follows:

Regulatory Capital - KCB Bank Kenya Limited

	2021 KShs million	2020 KShs million
Core Capital (Tier 1):		
Ordinary share capital	53,986	53,986
Retained earnings	60,678	48,232
Deferred tax	(7,007)	-
Total Core Capital	**107,657**	**102,218**
Supplementary Capital (Tier 2):	28,967	24,456
Total regulatory capital	**136,624**	**126,674**
Risk-weighted assets	**676,511**	**654,393**
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**20.2%**	**19.4%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**15.9%**	**15.7%**
The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:		
Total core capital expressed as a percentage of total risk-weighted assets	**14.5%**	**14.5%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**10.5%**	**10.5%**

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For the Year Ended 31 December 2021

Notes (Continued)

6. Management of Capital (Continued)

	2021	2020
Regulatory capital – Tanzania		
KCB Bank Tanzania had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	16.6%	16.1%
Tier I + Tier II (Minimum required 12%)	16.6%	16.1%
Regulatory capital – Rwanda		
KCB Bank Rwanda had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	17.0%	17.0%
Tier I + Tier II (Minimum required 12%)	18.2%	16.3%
Regulatory capital – South Sudan		
KCB Bank South Sudan had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	93.0%	102.0%
Tier I + Tier II (Minimum required 12%)	112.0%	135.0%
Regulatory capital – Burundi		
KCB Bank Burundi had the following capital adequacy ratios:		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	37.7%	32.9%
Tier I + Tier II (Minimum required 12%)	38.2%	31.7%
Regulatory capital – Uganda		
KCB Bank Uganda had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	15.0%	17.2%
Tier I + Tier II (Minimum required 12%)	15.6%	17.9%
Regulatory capital –BPR		
BPR had the following capital adequacy ratios:-		
Core capital (Tier 1)		
Tier I (Minimum required 10%)	23.9%	-
Tier I + Tier II (Minimum required 12%)	24.1%	-

KCB Group Plc will ensure that the capital adequacy of its subsidiaries meet the requirements of home and host regulators as required by cap 488 of the Banking Act.

The Group was in compliance with all statutory capital requirements as at end of the year. In addition, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) policy to guide in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Group uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements.

It delineates the process through which the Group assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Group assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Group's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board. Exposures are monitored on a quarterly basis against those limits and reported to the Board Credit and Risk Committees. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Group's ICAAP, forecasts are made over a five-year horizon, taking into account the Basel Pillar I and II stresses.

Notes (Continued)

6. **Management of Capital (Continued)**
Regulatory (Continued)
The ICAAP provides for an assessment of the Pillar I risk types (i.e., credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of possible stress scenarios and in order to evaluate how the Group can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework for the Group is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of the Group.

7. **Operating Segments**
An operating segment is a section of the Group that focus on distinct business activities and is regularly reviewed by the management in terms of performance and resource allocation. The Group's management identify the specific segments based on the internal reporting periodically to the executive committee. The segmentation is dependent on the customer's turnover and thus the current segments include corporate, retail, Treasury, and mortgages.

The focus of these segments is as detailed below:

Retail banking – incorporating banking services such as customer current accounts, savings, and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgage-based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans, and other credit facilities both in local and foreign currencies for corporate customers.

Mortgages – incorporating the provision of mortgage finance.

Treasury – operates the Group's funds management activities.

Other Group operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The Group does not have any one major customer contributing to more than 10% in revenue, loans, or deposits. There have been no changes in the reportable segments in the year, nor any intersegment transfers.

The table below analyses the breakdown of segmental assets, liabilities, income, and expenses.

Profit or Loss **For the year ended 31-Dec-21**	**Corporate banking KShs million**	**Retail banking KShs million**	**Treasury KShs million**	**Mortgages KShs million**	**Other KShs million**	**Total KShs million**
Interest income	39,738	46,868	21,900	986	5,334	114,826
Interest expense	(14,770)	(6,373)	(918)	(45)	(2,357)	(24,463)
Net interest income	24,968	40,495	20,982	941	2,977	90,363
Net fees and commission income	10	3,804	6,547	73	-	10,434
Other income	518	2,332	1,477	-	6,157	10,484
Depreciation and amortization	(116)	(804)	(9)	-	(5,099)	(6,028)
Impairment	(8,793)	(3,987)	-	(118)	(1,726)	(14,624)
Operating expenses	(4,410)	(20,012)	(220)	(28)	(18,360)	(43,030)
Profit before monetary items	12,177	21,828	28,777	868	(16,051)	47,599
Loss on monetary items	-	-	-	-	216	216
Profit before tax	12,177	21,828	28,777	868	(15,835)	47,815
Tax expense	(3,474)	(6,228)	(8,210)	(248)	4,518	(13,642)
Profit after tax	**8,703**	**15,600**	**20,567**	**620**	**(11,317)**	**34,173**
31 December 2020						
Interest income	24,915	34,439	21,873	8,781	2,943	92,951
Interest expense	(11,872)	(5,336)	(1,785)	(855)	(959)	(20,807)
Net interest income	13,043	29,103	20,088	7,926	1,984	72,144
Net fees and commission income	4,907	8,473	19	7	167	13,573
Other income	277	3,367	6,072	-	563	10,279
Depreciation and amortization	(3)	(64)	(1)	-	(5,851)	(5,919)
Impairment	(13,667)	(10,068)	(23)	(1,715)	(2,036)	(27,509)
Fair Value Gain	393	-	-	-	-	393
Operating expenses	(4,151)	(19,414)	(270)	(243)	(13,294)	(37,372)
Profit before monetary items	799	11,397	25,885	5,975	(18,467)	25,589
Loss on monetary items	-	-	-	-	130	130
Profit before tax	799	11,397	25,885	5,975	(18,337)	25,719
Tax expense	(190)	(2,710)	(6,154)	(1,421)	4,360	(6,115)
Profit after tax	**609**	**8,687**	**19,731**	**4,554**	**(13,977)**	**19,604**

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For the Year Ended 31 December 2021

Notes (Continued)

7. Operating Segments (Continued)

	Corporate banking KShs million	Retail banking KShs million	Treasury KShs million	Mortgages KShs million	Other KShs million	Total KShs million
Financial position						
As at 31 December 2021						
Short term funds	23,783	15,401	211,784	-	123,579	374,547
Loans and advances	322,307	257,916	-	95,258	-	675,481
Other assets and prepayments	9,396	-	-	-	80,248	89,644
Total assets	**355,486**	**273,317**	**211,784**	**95,258**	**203,827**	**1,139,672**
Customer deposits	431,416	382,148	8,945	3,516	11,116	837,141
Borrowed funds	-	-	-	-	37,561	37,561
Payables and accrued expenses	169	506	-	-	90,133	90,808
Shareholders' funds	-	-	-	-	174,162	174,162
Total liabilities and shareholders' funds	**431,585**	**382,654**	**8,945**	**3,516**	**312,972**	**1,139,672**
As at 31 December 2020						
Short term funds	-	15,153	283,947	-	-	299,100
Loans and advances	262,531	243,159	-	89,315	249	595,254
Other assets and prepayments	-	-	-	-	93,456	93,456
Total assets	**262,531**	**258,312**	**283,947**	**89,315**	**93,705**	**987,810**
Customer deposits	380,297	340,532	11,144	34,756	495	767,224
Borrowed funds	-	-	-	-	37,032	37,032
Payables and accrued expenses	-	-	-	-	41,129	41,129
Shareholders' funds	-	-	-	-	142,424	142,424
Total liabilities and shareholders' funds	**380,297**	**340,532**	**11,144**	**34,756**	**221,080**	**987,810**

Major Customers
The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information
Six of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Plc, KCB Bank Burundi Limited and Banque Populaire du Rwanda operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

Notes (Continued)

7. Operating Segments (Continued)
Geographical information
Income Statement

	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	Group Elimination KShs million	Total KShs million
For the year ended 31 December 2021								
Interest income	103,008	3,820	162	1,964	5,224	788	(140)	114,826
Interest expense	(20,980)	(1,220)	(79)	(689)	(1,571)	(64)	140	(24,463)
Net interest income	82,028	2,600	83	1,275	3,653	724	-	90,363
Net fees and commission income	8,471	231	469	350	479	434	-	10,434
Other income	24,229	375	762	411	374	121	(15,788)	10,484
Impairment	(13,528)	(610)	(29)	(162)	(253)	(42)	-	(14,624)
Fair value gain								-
Depreciation and amortization	(4,937)	(242)	(75)	(193)	(485)	(96)	-	(6,028)
Operating expenses	(37,247)	(1,283)	(431)	(1,312)	(2,207)	(550)	-	(43,030)
Profit before tax and monetary loss	59,016	1,071	779	369	1,561	591	(15,788)	47,599
Loss /(Gain)on monetary position			216					216
Profit before income tax	59,016	1,071	995	369	1,561	591	(15,788)	47,815
Tax	(12,577)	(349)	(79)	(99)	(465)	(73)	-	(13,642)
Profit after tax	**46,439**	**722**	**916**	**270**	**1,096**	**518**	**(15,788)**	**34,173**

	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
For the year ended 31 December 2020								
Interest income	84,919	3,126	117	1,576	2,617	757	(161)	92,951
Interest expense	(18,143)	(1,116)	(95)	(582)	(940)	(92)	161	(20,807)
Net interest income	66,776	2,010	22	994	1,677	665	-	72,144
Net fees and commission income	11,725	398	423	293	407	327	-	13,573
Other income	9,554	363	617	380	193	126	(954)	10,279
Impairment	(26,722)	(709)	27	187	(284)	(8)	-	(27,509)
Fair value gain	393	-	-	-	-	-		393
Depreciation and amortization	(5,093)	(211)	(88)	(190)	(239)	(98)	-	(5,919)
Operating expenses	(33,486)	(1,358)	(460)	(1,117)	(1,121)	(500)	670	(37,372)
Profit before tax and monetary loss	23,147	493	541	547	633	512	(284)	25,589
Loss /(Gain)on monetary position	-	-	130	-	-	-	-	130
Profit before income tax	23,147	493	671	547	633	512	(284)	25,719
Tax	(5,619)	(277)	118	(169)	(187)	19	-	(6,115)
Profit after tax	**17,528**	**216**	**789**	**378**	**446**	**531**	**(284)**	**19,604**

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For the Year Ended 31 December 2021

Notes (Continued)

7. Operating Segments (Continued)
Geographical information (Continued)
Statement of financial position

	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	Group Elimination KShs million	Total KShs million
For the year ended 31 December 2021								
Cash and short term funds	298,471	16,616	12,078	10,399	28,526	8,457	-	374,547
Loans and advances	596,327	22,238	1,639	11,708	40,471	3,098	-	675,481
Other assets	170,391	78	2,143	2,531	6,388	484	(92,371)	89,644
Total assets	**1,065,189**	**38,932**	**15,860**	**24,638**	**75,385**	**12,039**	**(92,371)**	**1,139,672**
Customer deposits	730,583	23,239	8,136	19,997	46,100	9,086	-	837,141
Borrowed funds	33,621	493	-	497	2,950	-	-	37,561
Other liabilities	65,247	9,614	4,435	719	13,308	444	(2,959)	90,808
Shareholders' funds	235,738	5,586	3,289	3,425	13,027	2,509	(89,412)	174,162
Total liabilities and shareholders' funds	**1,065,189**	**38,932**	**15,860**	**24,638**	**75,385**	**12,039**	**(92,371)**	**1,139,672**

	Kenya KShs million	Tanzania KShs million	South Sudan KShs million	Uganda KShs million	Rwanda KShs million	Burundi KShs million	Group Elimination KShs million	Total KShs million
31 December 2020 31 December 2020								
For the year ended								
Cash and short term funds	247,916	13,029	14,166	8,993	7,946	7,050	-	299,100
Loans and advances	547,501	19,234	920	7,602	17,103	2,895	-	595,255
Other assets	153,189	1,371	1,425	2,380	1,076	364	(66,350)	93,455
Total assets	**948,606**	**33,634**	**16,511**	**18,975**	**26,125**	**10,309**	**(66,350)**	**987,810**
Customer deposits	694,861	22,173	9,455	13,533	19,353	7,849	-	767,224
Borrowed funds	34,707	817	-	868	641	-	-	37,032
Other liabilities	14,967	6,026	3,112	1,653	2,112	443	12,816	41,129
Shareholders' funds	204,071	4,618	3,944	2,921	4,019	2,017	(79,166)	142,423
Total liabilities and shareholders' funds	**948,606**	**33,634**	**16,511**	**18,975**	**26,125**	**10,309**	**(66,350)**	**987,810**

Notes (Continued)

8. Interest Income and Interest Expense

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
(a) Interest income				
Interest on loans and advances	86,642	72,286	17	31
Financial instruments at FVOCI	26,467	18,697	-	-
Other investments at amortised cost	68	4,481	-	-
Interest on placements and bank balances	1,649	797	140	-
	114,826	**96,261**	**157**	**31**
(b) Interest expense				
Interest on deposits	20,495	18,855	-	-
Interest on borrowed funds	3,448	1,952	-	-
Interest on lease liabilities	520	402	-	-
	24,463	21,209	-	-
Net Interest Income	**90,363**	**75,052**	**157**	**31**

9. Fees and Commission Income/Expense

(a) Fees and commission income				
Retail and corporate fee income	3,093	3,688	32	-
Commission income	8,701	7,738	-	-
	11,794	**11,426**	**32**	**-**
(b) Fees and commission expense	(1,360)	(1,163)	-	-
Net Fees and Commission	**10,434**	**10,263**	**32**	**-**

10. Net Foreign Exchange Gain

Foreign currency dealings	6,547	5,390	52	38
	6,547	**5,390**	**52**	**38**

11. (a) Dividend Income

Dividend income	-	-	15,688	170

11. (b) Other Operating Income

	KShs million	KShs million	KShs million	KShs million
Rental income	339	369	8	2
Profit on disposal of property and equipment	20	(32)	-	-
Income on disposal of government securities	774	1,168	-	-
Risk premium	-	2,782	-	-
Miscellaneous income	157	73	1,146	505
	1,290	**4,360**	**1,154**	**507**

12. Allowances for Expected Credit Losses

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Losses on financial assets				
Non-performing loans and advances (Stage 3)	32,363	36,807	-	-
Performing loans and advances (Stage 1 and 2)	1,095	1,406	-	-
Recoveries in the year	(19,460)	(10,704)	-	-
	13,998	**27,509**	**-**	**-**

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For the Year Ended 31 December 2021

Notes (Continued)

13. Net Gains/(Losses) on Financial Assets at Fair Value Through Profit or Loss

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Gain/(loss) on investment securities	169	(64)	-	-
Fair value gain/(loss) on loan notes	115	457	-	-
	284	**393**	**-**	**-**

14. Employee Benefits

Salaries and wages	20,711	17,297	992	618
Medical expenses	1,489	1,179	36	29
Pension costs – defined benefit scheme	221	352	-	-
Pension costs – defined contribution scheme	1,394	1,360	10	6
Other employee expenses	1,255	323	6	-
	25,070	**20,511**	**1,044**	**653**

*Other costs relate to staff insurance, health and safety programmes, recognition schemes, restructuring costs, recruitment and other incidental costs.

The total number of employees of the Group for the year ended 31 December 2021 was 8,538 (2020: 7,525). The total number of employees of the Company for the year ended 31 December 2021 was 10 (2020: 10)

15. Depreciation And Amortisation

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Depreciation of property and equipment (Note 29)	2,442	2,408	14	12
Amortisation of right of use assets-Leased (Note 31)	1,443	1,201	-	-
Amortisation of intangible assets (Note 32)	2,143	2,310	2	2
	6,028	**5,919**	**16**	**14**

16. Other Operating Expenses

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Depositor's protection fund premiums	1,157	992	-	-
Marketing, events and sponsorship	1,957	1,743	35	49
Project expenses,repairs & maintenance, rent and utilities	1,463	1,590	15	11
Equipment costs,Maintenance, repairs and leases	2,001	2,000	14	15
Communication costs-Data line,Telephone	743	814	2	5
Professional and outsourced service costs	3,551	3,711	326	412
Software related costs	3,259	2,052	-	1
Other costs	2,821	3,028	102	937
	16,952	**15,930**	**494**	**1,432**

The Group also leases computer equipment and point of sale machines for between one to three years. These leases are short-term or low valued and the Group has elected not to recognize the right-of-use assets and liabilities as exempted by the standard.

Notes (Continued)

17. Profit before Income Tax

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Profit before tax is arrived at after charging/(crediting):				
Depreciation	2,442	2,408	14	12
Amortization of intangible assets	2,143	2,310	2	2
Amortization of right of use asset	1,443	1,201	-	-
Directors' emoluments –salary emoluments	598	296	47	232
Auditors remuneration	67	63	6	4
Profit/(loss) on disposal of property and equipment	20	32	-	(3)

18. Gain/(Loss) on Monetary Position

Gain/Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a gain on monetary position of KShs.216 million (2020: KShs 130 million)

2021

	1-Jan-21 KShs million	Net change in monetary items KShs million	31-Dec-21 KShs million
Monetary Items			
Cash and balances with Bank of South Sudan	13,388	(2,171)	11,217
Investment in government securities	-	-	-
Placements and balances with other banking institutions	656	327	983
Amounts due from related companies	122	(64)	58
Loans and advances to customers	922	718	1,640
Other assets	40	(13)	27
Customer deposits	(9,160)	1,081	(8,079)
Balances due to other banks	(1)	(2)	(3)
Tax payable	(44)	(28)	(72)
Other liabilities	(821)	199	(622)
Amounts due to related companies	(2,721)	129	(2,592)
Net monetary assets	2,381	176	2,557
Expressed in purchasing power at 31 Dec 2021	(2,251)	(90)	(2,341)
Loss on net monetary position	**130**	**86**	**216**

2020

Cash and balances with Bank of South Sudan	11,285	2,103	13,388
Investment in government securities	-	-	-
Placements and balances with other banking institutions	591	65	656
Amounts due from related companies	134	(12)	122
Loans and advances to customers	915	7	922
Other assets	37	3	40
Customer deposits	(8,305)	(855)	(9,160)
Balances due to other banks	(1)	-	(1)
Tax payable	1	(45)	(44)
Other liabilities	(866)	45	(821)
Amounts due to related companies	(1,816)	(905)	(2,721)
Net monetary assets	1,975	406	2,381
Expressed in purchasing power at 31 Dec 2020	(1,811)	(440)	(2,251)
Loss on net monetary position	**164**	**(34)**	**130**

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For the Year Ended 31 December 2021

Notes (Continued)

19. Current Income Tax

	2021 KShs million	2020 KShs million
(a) Income statement		
Income tax expense		
Charge to profit or loss for the year	17,993	11,622
Under/(over) provisions in prior years	3	165
	17,997	**11,787**
Deferred tax charge/(credit)		
Credit to profit or loss for the year (Note 34)	(4,346)	(4,919)
Under/(over) provision in prior years	(5)	(753)
	(4,351)	**(5,672)**
Effects of hyperinflation adjustments	(3)	(3)
Total income tax expense for the year	**13,642**	**6,115**
Reconciliation of effective tax:		
Profit for the year	47,815	25,719
Income tax expense calculated	18,586	6,602
Effects of non-taxable income	(5,962)	(758)
Effects of non-allowable expenses	1,023	154
Under/(over) provision of current income tax in prior years	3	165
Under/(over) provision of deferred income tax in prior years	(4)	753
Effects of change in tax rate		(798)
Effects of hyperinflation adjustment	(4)	(3)
Income tax expense recognised in profit or loss	**13,642**	**6,115**

Company

	2021	2020
(a) Income statement		
Income tax expense		
Current income tax	25	6
Over provision in Prior years	(3)	-
	22	**6**
Deferred tax charge/(credit)		
Current year charge/(credit) (Note 34)	(3)	12
	(3)	**12**
Total income tax expense for the year	**19**	**18**
Reconciliation of effective tax:		
Profit for the year	15,529	(1,353)
Income tax expense calculated at 30%(2020:25%)	4,659	(338)
Effect of income that is exempted from taxation	(4,706)	(43)
Effect of expenses that are not deductible in determining taxable profit	70	396
Over provision in Prior years	(3)	1
Effect of change in tax rate	-	2
Income tax expense recognised in profit or loss	**19**	**18**

Notes (Continued)

19. Current Income Tax (Continued)

	2021 KShs million	2020 KShs million
(b) Statement of financial position-Group		
At start of year	426	416
Current income tax expense	(17,993)	(11,622)
Over provision in prior years	(4)	-
Total income taxes paid	11,939	11,616
Effects of hyperinflation adjustment	(12)	16
At end of year	**(5,644)**	**426**
Company		
At start of year	25	27
Under provision in prior years	3	-
Tax paid during the year	90	5
Tax charge for the year	(25)	(7)
At end of year	**93**	**25**

20. Earnings Per Share

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 34,092 million (2020 – 19,604 million) and on the weighted average number of ordinary shares during the year of 3,213 million (2020 – 3,213 million shares).

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Basic earnings per share	**10.61**	**6.10**	**4.83**	**(0.43)**
Diluted earnings per share	**10.61**	**6.10**	**4.83**	**(0.43)**

21. Cash and Bank Balances

Cash on hand	17,835	15,153	517	1,147
Balances with Central Banks:				
Cash reserve ratio	41,171	35,671	-	-
Other current accounts	12,606	13,784	-	-
	71,612	**64,608**	**517**	**1,147**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

22. Loans and Advances to Other Banks

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Balances in nostro accounts*	13,200	9,885	-	-
Placements with other banks	13,442	13,821	-	-
	26,642	**23,706**	**-**	**-**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2021 was 5.1% (2020 :3.7%).

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Notes (Continued)

23. Financial Assets at Fair Value through other Comprehensive Income

	Group		Company	
	2021	2020	2021	2020
	KShs million	KShs million	KShs million	KShs million
Quoted investments	-	597	-	-
Unquoted equity investments	10	17	-	-
Treasury bonds	139,694	93,670	-	-
	139,704	**94,284**	**-**	**-**

24. Investments Accounted using Equity Method

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
At start of year	600	600	-	-
Refund receivable	(238)	-	-	-
Share of profit	40	-	-	-
	402	**600**	**-**	**-**

The Bank has a 20% shareholding in Kenya Mortgage Finance Company. Summarized financial information for the associate have not been presented as the associate is immaterial to the Group.

25. Other Assets and Prepayments

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Other receivables	16,499	35,702	-	33
Prepayments	9,935	6,810	4	-
Items in the course of collection	895	650	-	-
	27,329	**43,162**	**4**	**33**

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

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

26. Loans and Advances to Customers

The summary of loans and advances is as follows:

	2021 KShs million	2020 KShs million
Loans and advances at amortised cost	671,819	591,859
Loans and advances at fair value	3,662	3,396
	675,481	**595,255**

Notes (Continued)

26. Loans and Advances to Customers (Continued)
Loans and advances at amortised cost

	2021			2020		
	Gross KShs million	Credit loss allowance KShs million	Carrying Amount KShs million	Gross KShs million	Credit loss allowance KShs million	Carrying Amount KShs million
Corporate						
Mortgage	40,274	3,257	37,017	12,709	871	11,838
Overdrafts	18,561	1,097	17,464	9,854	194	9,660
Term loans	313,173	48,048	265,125	311,603	32,266	282,733
	372,008	**52,402**	**319,606**	**334,166**	**33,331**	**300,835**
Retail						
Mortgage	59,583	1,342	58,241	56,902	1,341	55,561
Overdrafts	15,406	3,184	12,222	4,920	2,115	2,805
Term loans	294,568	12,818	281,750	260,788	28,129	232,659
	369,557	**17,344**	**352,213**	**322,610**	**31,585**	**291,025**
	741,565	**69,746**	**671,819**	**656,775**	**64,917**	**591,859**

2021
Loans and advances to customers

	Corporate KShs million	Mortgages KShs million	Retail KShs million	Total KShs million
Stage 3				
At start of year	29,302	1,874	19,949	51,125
Allowance made during the year (Note 12)	21,888	1,416	9,058	32,363
Allowance recovered/unrequired during the year (Note 12)	(9,472)	(397)	(9,591)	(19,460)
Write downs/write-offs during the year	(1,476)	(49)	(7,643)	(9,168)
At end of year	**40,242**	**2,844**	**11,773**	**54,859**
Stage 1 & 2				
At start of year	6,506	1,242	6,044	13,792
Allowance made during the year (Note 12)	952	(601)	744	1,095
At end of year	**7,458**	**641**	**6,788**	**14,887**
Total	**47,700**	**3,485**	**18,561**	**69,746**

2020
Loans and advances to customers

	Corporate KShs million	Mortgages KShs million	Retail KShs million	Total KShs million
Stage 3				
At start of year	17,312	1,392	14,597	33,301
Allowance made during the year (Note 12)	25,348	1,684	9,775	36,807
Allowance recovered/unrequired during the year (Note 12)	(5,079)	(1,202)	(4,423)	(10,704)
Write downs/write-offs during the year	(8,279)	-	-	(8,279)
At end of year	**29,302**	**1,874**	**19,949**	**51,125**
Stage 1 & 2				
At start of year	5,284	287	6,815	12,386
Allowance made during the year (Note 12)	1,222	955	(771)	1,406
At end of year	**6,506**	**1,242**	**6,044**	**13,792**
Total	**35,808**	**3,116**	**25,993**	**64,917**

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Notes (Continued)

26. Loans and Advances to Customers (Continued)

	2021 KShs million	2020 KShs million
Maturity analysis of gross loans and advances to customers:		
Maturing as follows:		
Within 1 month	60,221	75,672
After 1 month but within 3 months	15,087	32,695
After 3 months, but within 1 year	96,884	51,340
After 1 year, but within 5 years	212,019	201,068
After 5 years	357,354	299,397
	741,565	**660,172**
Sectorial analysis of gross loans and advances to customers:		
Private sector and individuals	707,432	626,434
Government and parastatals	34,133	33,738
	741,565	**660,172**

The weighted average effective interest rate on loans and advances as at 31 December 2021 was 10.8% (2020 – 10.4%).

Loan and advances at fair value through profit or loss

	2021 KShs million	2020 KShs million
At start of year	3,396	4,376
Fair value loss gain/(loss)	266	(980)
At end of year	**3,662**	**3,396**

Loans and advances at fair value relate to loan notes issued to a Special Purpose Entity (SPE) formed as part of a restructuring arrangement between lender banks and Kenya Airways Plc in 2016. Under the terms of the restructuring, the amounts owing to the banks were transferred to the SPE, which in exchange was allocated equity shares of Kenya Airways Plc. Principally, the banks will recover the amounts due through the sale of Kenya Airways shares. The banks receive a fixed interest income on the amounts due at a rate that is largely below the market rates.

27. Financial Assets at Amortized Cost

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Maturing as follows:				
Within 1 month	626	241	-	-
After 1 month, but within 3 months	320	413	-	-
After 3 months, but within 6 months	639	-	-	-
After 6 months, but within 12 months	8,944	1,438	-	-
After 1 year, but within 5 years	20,606	23,057	-	-
After 5 years	99,597	86,208	-	-
	131,127	**111,357**	**-**	**-**

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi. The bills and bonds are categorized as amounts held at amortized cost and carried at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2021 was 7.7% (31 December 2020: 7.9%).

28. Financial Assets a Fair Value Through Profit or Loss (FVTPL)

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Government treasury bills and bonds	5,462	5,143	-	-
At end of year	**5,462**	**5,143**	**-**	**-**

Notes (Continued)

29. Property and Equipment

Group	Freehold and Lease Premises KShs million	Leasehold Improvements KShs million	Motor Vehicle, Furniture and Equipment KShs million	Total KShs million
As at 31 December 2021				
Cost				
At 1 January 2021	4,510	5,255	29,340	39,105
Reclassification	94	-	(410)	(316)
Additions	-	35	2,711	2,746
Acquisitions	2,843	-	2,393	5,236
Disposals	-	(6)	(90)	(96)
Translation differences	6	(342)	(141)	(476)
Hyperinflationary charge	-	35	20	55
At end of year	**7,453**	**4,977**	**33,823**	**46,254**
Depreciation				
At 1 January 2021	499	3,736	20,241	24,476
Acquisitions	1,101	-	1,478	2,579
Charge for the year	51	250	2,141	2,442
Disposals	3	(3)	(85)	(85)
Reclassification	(25)	-	-	(25)
Translation differences	2	(78)	(50)	(126)
Hyperinflationary charge	-	(11)	9	(2)
At end of year	**1,631**	**3,894**	**23,735**	**29,260**
Carrying amount	**5,822**	**1,083**	**10,088**	**16,993**

	Freehold and Lease Premises	Leasehold Improvements	Motor Vehicle, Furniture and Equipment	Total
As at 31 December 2020:				
Cost				
At 1 January 2020	3,253	5,310	26,691	35,254
Reclassification	818	-	(169)	649
Additions	439	46	2,939	3,424
Disposals	-	(48)	(156)	(204)
Translation differences	-	32	82	114
Hyperinflationary charge	-	(85)	(47)	(132)
At end of year	**4,510**	**5,255**	**29,340**	**39,105**
Depreciation				
At 1 January 2020	449	3,377	18,297	22,123
Charge for the year	49	337	2,022	2,408
Disposals	-	(26)	(156)	(182)
Reclassification	1	-	-	1
Translation differences	-	48	78	126
Hyperinflationary charge	-	-	-	-
At end of year	**499**	**3,736**	**20,241**	**24,476**
Carrying amount	**4,011**	**1,519**	**9,099**	**14,629**

Included in property and equipment are fully depreciated assets amounting to KShs 15,695 million (2020 – KShs 9,152 Million) which would have a notional depreciation of KShs 2,296 million (2020 – KShs 1,257 million)

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For the Year Ended 31 December 2021

Notes (Continued)

29. Property and Equipment (Continued)

Company	Freehold and Lease Premises KShs million	Motor Vehicle, Furniture and Equipment KShs million	Total KShs million
As at 31 December 2021:			
Cost			
At 1 January 2021	585	79	664
Additions	-	12	12
At end of year	**585**	**302**	**676**
Depreciation			
At 1 January 2021	32	16	48
Charge for the year	3	11	14
At end of year	**35**	**27**	**62**
Carrying amount	**550**	**275**	**614**
As at 31 December 2020:			
Cost			
At 1 January 2020	585	57	642
Additions	-	22	22
At end of year	**585**	**79**	**664**
Depreciation			
At 1 January 2020	29	7	36
Charge for the year	3	9	12
At end of year	**32**	**16**	**48**
Carrying amount	**553**	**63**	**616**

Included in property and equipment are fully depreciated motor vehicle, furniture and equipment amounting to 15,695 million (2020 – KShs 798 Million) which would have a notional depreciation of KShs 2,296 million (2020 – KShs 0.78 Million).

30. Investment Property

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
At start of year	6,035	5,642	-	-
Additions in year	5,541	-	-	-
Fair value (loss) /gains	(910)	393	-	-
At end of year	**10,666**	**6,035**	**-**	**-**

Notes (Continued)

31. Right of use Assets

	2021			2020		
	Leasehold premises KShs million	Leased motor vehicles KShs million	Totals KShs million	Leasehold premises KShs million	Leased motor vehicles KShs million	Totals KShs million
Cost						
At 1 January 2021	8,575	1,296	9,871	9,325	1,294	10,619
Acquisition of a subsidiary	215	-	215	-	-	-
Additions	496	-	496	132	-	132
Disposals	(352)	-	(352)	(191)	-	(191)
Reclassification/internal transfers	(46)	-	(46)	(815)	-	(815)
Hyperinflationary charge	10	-	10	(45)	-	(45)
Translation difference	(48)	(1)	(49)	169	2	171
At end of year	**8,850**	**1,295**	**10,145**	**8,575**	**1,296**	**9,871**
Amortisation						
At 1 January 2021	(3,988)	(424)	(4,412)	(3,127)	(208)	(3,335)
Disposals	352	-	352	191	-	191
Charge for the year	(835)	(608)	(1,443)	(986)	(215)	(1,201)
Reclassification/internal transfers	(17)	247	230	-	-	-
Hyperinflationary charge	(1)	-	(1)	1	-	1
Translation difference	(9)	-	(9)	(67)	(1)	(68)
At end of year	**(4,498)**	**(785)**	**(5,283)**	**(3,988)**	**(424)**	**(4,412)**
Carrying amount						
At end of year	**4,352**	**510**	**4,862**	**4,587**	**872**	**5,459**

Right of use assets relate to leased premises and motor vehicles.

32. Intangible Assets-Software

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Cost				
At 1 January 2021	18,897	17,406	10	10
Additions	1,054	1,281	-	-
Acquisitions	3,087	-		
Disposal	-	(2)	-	-
Reclassification/internal transfers	409	168	-	-
Translation differences	28	44	-	-
At end of year	**23,475**	**18,897**	**10**	**10**
Amortisation				
At 1 January 2021	13,398	11,069	3	1
Acquisitions	819	-		
Disposals	89	(3)	-	-
Amortization for the year	2,143	2,310	2	2
Translation differences	15	22	-	-
At end of year	**16,465**	**13,398**	**5**	**3**
Carrying amount				
At end of year	**7,010**	**5,499**	**5**	**7**

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Notes (Continued)

33. Investment in Subsidiary Undertakings

(a) Investment in subsidiaries

	Activity	Beneficial ownership %	2021 KShs' million	2020 KShs' million
Investments in subsidiaries:				
Incorporated in Kenya:				
Company				
KCB Bank Kenya Limited	Commercial Banking	100	53,986	53,986
Kenya Commercial Finance Company Limited	Dormant	100	150	150
KCB Capital Limited	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
National Bank of Kenya Limited	Commercial Banking	100	14,646	11,191
Kenya Commercial Bank Nominees Limited	Nominee Shareholders	100	-	-
Kencom House Limited	Property Ownership &Management	100	749	749
KCB Bancassurance Intermediary Limited (formerly KCB Insurance Agency Limited)	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,546	3,546
KCB Bank South Sudan Limited	Commercial Banking	100	2,354	2,354
KCB Bank Rwanda Plc	Commercial Banking	100	2,705	2,705
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial banking	100	3,145	3,145
BPR Rwanda	Commercial banking	77	4,846	
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			87,964	**79,662**

*Investment in United Finance is at KShs 125,000

	2021 KShs' million	2020 KShs' million
Movement in investment in subsidiaries		
Balance at 1 January	79,662	79,227
Acquisition of BPR Rwanda	4,846	-
Equity injection into KCB Bank Rwanda Plc	-	435
Equity injection into National Bank of Kenya Limited	3,455	-
Total additional investment in subsidiaries	**8,301**	**435**
Balance at 31 December	**87,964**	**79,662**

The significant risks for the various subsidiaries have been documented in Note 4.

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

KCB Foundation is the corporate social responsibility arm of the Group and it's financial results are not included in the consolidated Group's position.

Notes (Continued)

33. Investment in Subsidiary undertakings (Continued)

(b) Acquisition of Banque Populaire du Rwanda (BPR)

On 31 July 2021, the Group acquired 33,326,444 (76.67%) of the shares and voting interests in BPR for a total cash consideration of KShs 4,846.23 million (RWF 44,556.3 million). The transaction was at a bargain purchase of KShs 689 million. For the five months ended 31 December 2021, BPR contributed revenue of KShs 1,691 million and profit before income tax of KShs 477 million to the Group's results. If the combination had taken place at the beginning of the year, the contributions to the Group's revenue would have been KShs 4,039 million and profit before income tax of KShs 799 million.

(i) Consideration paid

The Group paid a cash consideration of KShs 4,846 million (RWF 44,556.3 million). The purchase agreement included a deferred consideration on contingent receivables; the Group has assessed the probability of crystallization and has considered it remote and immaterial and thus has not been incorporated for any future cash outflow.

(ii) Acquisition related costs

The Group incurred acquisition-related costs of KShs 504 million. These costs have been included within administrative expenses.

(iii) Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

	2021 KShs million
Assets	
Cash and bank balances	3,519
Loans and advances to banks	2,329
Other assets and prepayments	857
Loans and advances to customers (net)	21,342
Financial assets at amortised cost	14,700
Property & equipment	2,725
Right of use asset	271
Intangible assets	2,251
Total Assets	**47,994**
Liabilities	
Deposits from banks	12,237
Customer deposits	25,867
Tax payable	175
Borrowings	506
Lease liabilities	253
Deferred tax liability	655
Payables and accrued expenses	1,082
Total Liabilities	**40,775**
Total Identifiable net assets at fair value	**7,219**
Non-controlling interests (23.33%)	(1,684)
Share of net identifiable assets at fair value (76.67%)	**5,535**

(iv) Bargain purchase

Share of net identifiable assets at fair value (76.67%)	5,535
Cash consideration paid	(4,846)
Bargain purchase	**689**

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Notes (Continued)

33. Investment in Subsidiary undertakings (Continued)

(b) Acquisition of Subsidiary Banque Populaire du Rwanda (BPR) (Continued)

(v) Intangible assets on acquisition of BPR

Intangible assets arising from the acquisition include Brand value (KShs 339 million), customer relationships (KShs 211 million) and core deposits (KShs 1,631 million):

Brand

A brand is defined as a way in which a company or organization is perceived by its customers. BPR is a known brand in the Rwandan market, has been operational since 1975 and is currently the second largest bank in that market.

The fair value of brand was determined using the relief-from-royalty (RFR) method. The RFR method values the intangible assets by reference to the amount the acquirer would pay in an arm's length transaction i.e it estimates the value for an asset based on the cost savings realised through ownership compared to paying licensing fees. The royalty rate is applied to the estimated income stream attributable to the brand to determine the amount of royalty savings, which is then discounted at the applicable discount rate to arrive at the estimated fair value. Amortisation for this asset is for five years.

Customer Relationships

The value of a customer relationship is mainly derived from the expectation of repeat business from the customer as well as the opportunity to cross sell various products and services to them. In the case of a bank, this value depends on the ability of the bank to provide banking products that meet customers' needs now and in the future. When determining if a customer relationship asset exists, the following elements have to be considered:

- Availability of factual information about the customers that is important and useful to the bank; and
- Expectations by the bank of repeat patronage from its customers based on the customers' banking activity. This expectation translates into the future revenue and cash flow to the bank.

The customer contracts were acquired as part of the business acquisition of BPR. They are recognized at their fair value at the date of acquisition and are subsequently amortized on a straight-line basis based on the timing of projected cash flows of the contracts over their estimated useful lives.

The fair value of customer relationships was valued using replacement cost method. The value is calculated as the estimated cost of acquiring new customers multiplied by the unique number of customers acquired in the transaction. This is adjusted with the profit mark up and opportunity cost.Amortisation for this asset is for five years.

Core Deposits

The premise underlying the core deposit intangible asset is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds. It relates to a stable deposit base with no contractual maturity that provides a low-cost source of funding (versus the alternative interbank funding market).

A core deposit intangible asset arises on acquisition when the acquired bank has a stable deposit base composed of funds associated with long-term customer relationships. The stable deposit base provides a low-cost source of funding as banks are able to utilize the core deposit base as a low-cost source of finance. The alternative to replace these established, low-cost deposit accounts in a timely manner, would be to utilize higher cost funds at current market rates.

The fair value of the core deposit intangible was determined using the cost savings method. It's calculated as the after-tax present values of; (i) net cost of funding and (ii) net service fees earned on deposits. Net cost of funding is the difference between interest expense on acquired low cost saving and demand deposit and cost of alternative funding over the useful life of the deposit. Amortisation for this asset is for five years.

(c) Non-controlling interest summarized performance at year end

	2021 KSh' million
Summarised balance sheet	
Total assets	47,882
Total liabilities	40,189
Net assets	**7,693**
Accumulated NCI	**1,794**
Summarised statement of comprehensive income	
Net interest income	1,395
Profit for the period	**405**
Profit allocated to NCI	**81**
Dividends paid to NCI	-
Summarised cash flows	
Cash flows from operating activities	963
Cash flows from investing activities	(5,123)
Cash flows from financing activities	8,434
Net increase in cash and cash equivalents	**4,274**

Notes (Continued)

34. Deferred Income Tax Asset
Group

	Balance at 1 January	Prior year (over)/under provision	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
2021					
Property and equipment	937	-	251	-	1,188
Financial assets at FVOCI	(1,099)	(17)	-	270	(846)
Defined benefit pension scheme	50	-	-	125	175
Unrealised gains and losses and loan impairment provision	16,566	11	4,292	-	20,869
Tax losses	1,193	-	(197)	-	996
	17,647	**(6)**	**4,346**	**395**	**22,382**
2020					
Property and equipment	541	-	396		937
Financial assets at FVOCI	(916)	753	-	(936)	(1,099)
Defined benefit pension scheme	-	-	-	50	50
Unrealised gains and losses	12,628	-	3,938	-	16,566
Tax losses	608	-	585	-	1,193
	12,861	**753**	**4,919**	**(886)**	**17,647**

Company

	Balance at 1 January	Recognised in profit or loss	Balance at 31 December
2021			
Property and equipment	1	2	3
Other deductable differences	(11)	1	(10)
	(10)	**3**	**(7)**
2020			
Property and equipment	-	1	1
Other deductable differences	2	(13)	(11)
	2	**(12)**	**(10)**

Other deductible differences mainly relate to allowances for expected credit losses on loans and advances which are only deductible for tax purposes when the credit losses meet the income tax law guidelines for tax deductibility which include among others credit write-off, total inability to collect etc.

The directors believe that, based on the historical performance, the Group, will have future taxable profits against which these assets can be utilised and also meet the income tax law conditions for deductibility of the allowances for expected credit losses on loans and advances.

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Notes (Continued)

35. Deposits from Banks

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Deposits and balances from other banks	47,817	19,668	-	-
Payable within 1 month	36,347	15,818	-	-
Payable after 1 month, but within 3 months	9,893	3,850	-	-
Payable after 3 months, but within 1 year	1,577	-	-	-
	47,817	**19,668**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2021 was 4.9% (2020 – 3.3%).

36. Deposits from Customers

(a) From government and parastatals:

	Group 2021 KShs million	Group 2020 KShs million	Company 2021 KShs million	Company 2020 KShs million
Maturing as follows:				
Within 1 month	261,821	249,197	-	-
After 1 month, but within 3 months	21,765	19,022	-	-
After 3 months, but within 1 year	3,536	1,263	-	-
After 1 year, but within 5 years	253	126	-	-
	287,375	**269,608**	**-**	**-**

(b) From private sector and individuals

	Group 2021 KShs million	Group 2020 KShs million	Company 2021 KShs million	Company 2020 KShs million
Maturing as follows:				
Within 1 month	415,584	395,885	-	-
After 1 month, but within 3 months	68,325	45,170	-	-
After 3 months, but within 1 year	58,921	52,625	-	-
After 1 year, but within 5 years	6,936	3,936	-	-
	549,766	**497,616**	**-**	**-**

	Group 2021 KShs million	Group 2020 KShs million	Company 2021 KShs million	Company 2020 KShs million
Total other customer deposits				
Maturing as follows:				
Within 1 month	677,405	645,964	-	-
After 1 month, but within 3 months	90,090	64,291	-	-
After 3 months, but within 1 year	62,457	54,115	-	-
After 1 year, but within 5 years	7,189	2,854	-	-
	837,141	**767,224**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2021 was 2.6% (2020 – 2.6%).

37. Payables and Accrued Expenses

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Accrued expenses	8,618	4,795	476	-
Other payables	12,551	(131)	107	53
Bills payable	6,661	9,764	23	-
	30,208	**14,428**	**606**	**53**

Bills payable consist of cheques issued by the Group to customers and suppliers that were not presented for payment at the end of the year. Other payables include items in suspense across the branch network.

Notes (Continued)

38. Lease Liabilities

	Group		Company	
	2021 KShs million	**2020 KShs million**	**2021 KShs million**	**2020 KShs million**
At start of year	6,858	6,108	-	-
Additions during the year	523	175	-	-
Reclassifications/internal transfers	237	1,359	-	-
Interest expense in the year	606	667	-	-
Payments in the year	(1,378)	(1,551)	-	-
Hyperinflationary change	(139)	(18)	-	-
Translation adjustment	(26)	118	-	-
At end of year	**6,681**	**6,858**	**-**	**-**

The balance sheet shows the following amounts relating to leases.

	Group		Company	
	2021 KShs million	**2020 KShs million**	**2021 KShs million**	**2020 KShs million**
Current	505	498	-	-
Non-Current	6,176	6,360	-	-
	6,681	**6,858**	**-**	**-**

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

Depreciation charge of right-of-use assets	1,196
Interest expense	606
Expense relating to short-term leases (included in administrative expenses)	520

The total cash outflow for leases in the year was KShs 1.378 billion (2020: KShs 1.551 billion) that related to principal portion of lease payments, expenses related to short term leases and interest expense on the leases.

Some leases of office premises contain extension options exercisable by the Group up to one term after the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

During the year, the Group obtained rent relief due to the COVID-19 pandemic. The reliefs received amounted to KShs Nil (2020: KShs 9.3 million) and have been derecognised as part of the lease liability.

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For the Year Ended 31 December 2021

Notes (Continued)

39. Related Party Transactions

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:

Receivables from and payables to group companies are non-interest bearing and are generally on 30-90 day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

(a) Balances due from related companies

	2021 KShs million	2020 KShs million
KCB Bank Tanzania Limited	121	15
KCB Bank Burundi Limited	79	66
KCB Bank Uganda Limited	2	3
KCB Bancassurance Intermediary Limited (formerly KCB Insurance Agency Limited)	6	
KCB Bank Rwanda Plc	40	28
KCB Bank South Sudan Limited	177	101
BPR	5	-
KCB Bank Kenya Limited	1,355	-
National Bank of Kenya Limited	16	-
	1,800	**213**

(b) Balances due to related companies

KCB Bank Kenya	-	3,553
Net balances due from related companies	**1,800**	**(3,340)**

The above amounts relate to receivables from and payable to the holding Company.

Notes (Continued)

39. Related Party Transactions (Continued)

(c) Balances due from related companies.

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
i) Loans				
Government of Kenya	-	613	-	-
Directors	19	12	-	-
Senior management	184	172	-	-
	203	**797**	**-**	**-**
Movement in loans to Directors and senior management				
At 1 January	184	239	-	-
Loans issued during the year	236	165	-	-
Loans repayments during the year	(217)	(220)	-	-
At 31 December	**203**	**184**	**-**	**-**
Interest income earned	**18**	**13**	**-**	**-**
ii) Deposits				
Government of Kenya	28	18	-	-
Directors	63	131	-	-
Senior management	87	86	-	-
At 31 December	**177**	**235**	**-**	**-**
Movement in deposits by Directors and senior management				
At 1 January	235	119	-	-
Deposits received during the year	1,341	1,484	-	-
Deposits withdrawn during the year	(1,399)	(1,368)	-	-
At 31 December	**177**	**235**	**-**	**-**
Interest expense	**6**	**5**	**-**	**-**

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 6million (2020 – KShs 5million). The interest paid on balances outstanding to related parties amounted to KShs 18 million (2020 – KShs13 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured, and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

Financial Statements

For the Year Ended 31 December 2021

Notes (Continued)

39. Related Party Transactions (Continued)

(d) Shareholders, Directors and key management personnel

	Group		Company	
Senior management personnel compensation (Included under personnel costs)	**2021 KShs million**	**2020 KShs million**	**2021 KShs million**	**2020 KShs million**
Short term employee benefits	**757**	**834**	**757**	**490**

(e) Directors emoluments

	Group		Company	
	2021 KShs million	**2020 KShs million**	**2021 KShs million**	**2020 KShs million**
Executive Directors:				
Salaries and other staff benefits	477	177	477	177
Fees and other benefits to non-executive directors	121	119	-	55
	598	**296**	**477**	**232**

40. Borrowings

Maturing within one year	683	398	-	-
Maturing after one year, but within five years	18,023	20,258	-	-
Maturing after five years	18,855	16,376	-	-
	37,561	**37,032**	**-**	**-**

Reconciliation of the movement in the long-term debt

	2021 KShs million	**2020 KShs million**
At start of year	37,032	21,813
Funds received - International Finance Corporation	-	16,376
Interest accrued in the year	3,206	1,952
Payments on principal	(3,077)	(2,787)
Payments on interest	(1,285)	(922)
Translation differences	1,685	600
Net movement in borrowings	529	15,219
At end of year	**37,561**	**37,032**

The long-term debt includes:

(a) A 5-year loan of RWF 5.689 million obtained by KCB Bank Rwanda from European Investment Bank at a rate of 8.02% p.a. in 2021.

(b) A 5-year loan of RWF 7.396 million obtained by KCB Bank Rwanda from European Investment Bank at a rate of 8.64% p.a. in 2021.

(c) A 10-year loan obtained from International Finance Corporation in 2020 of USD 150 million by KCB Bank Kenya Ltd at interest terms of Libor +5.15% p.a.

(d) A 5-year loan of RWF 7.085 million obtained by KCB Bank Rwanda from European Investment Bank at the rate of 7.83% p.a. in 2019.

(e) A 7-year loan obtained from African Development Bank (AfDB) in 2018 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.70% p.a.

(f) A 7-year loan obtained from International Finance Corporation (IFC) in 2018 of USD 75 million by KCB Bank Kenya at interest terms of Libor+5.3% p.a.

(g) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2018 of TZS 5.0 billion at interest terms of 10.0% p.a.

(h) A 3-year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2017 of TZS 5.0 billion at interest terms of 12.5% p.a.

(i) A 7-year loan obtained from European Investment Bank by KCB Bank Uganda in 2017 of UGX 33 billion at interest terms of 11.66% p.a.

(j) A 5-year loan obtained from International Finance Corporation by KCB Bank Uganda in 2016 of USD 10 million at interest terms of Libor +3.5% p.a.

Notes (Continued)

40. Borrowings (Continued)

The Group's long-term borrowing contracts are subjected to specific covenant clauses, whereby the Group is required to meet certain key financial ratios. This includes the requirement that the Open Credit Exposure Ratio (including COVID-19 restructured loans) and the open Credit Exposure Ratio (excluding COVID-19 restructured loans) should not exceed 65% and 30% respectively.

As at 31 December 2021, the actual ratios for one of our subsidiaries (KCB Bank Kenya) were higher than required, as a result of an increase in loans in arrears for more than ninety (90) days and increase in restructured loans, particularly within the hospitality, tourism, real estate, building and construction sectors which have been impacted by the prolonged Covid 19 pandemic effects.

The Group was however compliant with all principal and interest repayments as required in the loan agreements. In addition, the lenders have not varied the terms of the loan agreement or requested for an early repayment of the loan as at the date these financial statements were approved by the Board of Directors. Management is in the process of seeking a waiver of the ratios that are in breach and expects approval by the second quarter of 2022.

41. Share Capital

	Group and Company	
	2021 KShs million	2020 KShs million
Authorised:		
4,500,000,000 (2020: 4,500,000,000) at 1 January and 31 December ordinary shares of KShs 1 each	**4,500**	**4,500**
Issued and fully paid:		
At start of year (3,213,462,815) and at end of year ordinary shares of KShs 1 each	**3,213**	**3,213**

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

42. Reserves

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
At 1 January	(6,668)	(6,246)	(52)	(52)
Foreign currency translation differences for foreign operations	(663)	584	-	-
Hyperinflationary impact	(132)	(889)	-	-
Re-measurement benefits obligation (net of tax)	(293)	(117)	-	-
Change of fair value of financial assets at FVOCI	(629)	-	52	-
At 31 December	**(8,385)**	**(6,668)**	**-**	**(52)**

*Other reserves comprise of defined benefit reserve, translation reserve, hyperinflation reserve and fair value through other comprehensive income reserve.

The share premium arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

The fair value through other comprehensive income (FVTOCI) reserve arises from marking to market of investment securities classified under FVTOCI category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution.

	2021 KShs million	2020 KShs million
At start of year	2,155	5,915
Transfers from retained earnings	5,804	(3,760)
At end of year	**7,959**	**2,155**

The translation reserve arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

Defined benefit reserve arises from changes in the fair value of the net assets held by the pension fund. The reserves are recognized in income statement once the underlying asset has been derecognized and is not available for distribution.

Hyperinflation reserve relates to changes in equity of the foreign operation as a result of adjusting non-monetary assets and liabilities and equity balances for hyperinflation under IAS 29. The hyperinflation adjustment has been presented as an adjustment to equity in the statement of changes in equity.

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For the Year Ended 31 December 2021

Notes (Continued)

43. Dividend Per Share

Dividends are recognized as a liability in the period in which they are declared.

At the Annual General Meeting to be held on 3 June 2022, an interim and final dividend in respect of the year ended 31 December 2021 totalling to KShs 3.00 per share (2020: KShs 1.00 per share) amounting to KShs 9,640 million (2020: KShs 3,213 million) will be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

44. Notes to the Statement of Cash Flows

(a) Cash flows from operating activities

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
This has been derived as follows:				
Profit before tax	47,815	25,719	15,529	(1,371)
Adjustments for:				
Depreciation of property and equipment	2,442	2,408	14	12
Depreciation of right of use				
Amortization of prepaid operating lease rentals	458	1,201	-	-
Amortization of intangible assets	2,143	2,310	2	3
Retirement benefit expense	62	58	-	-
Interest expense on lease liability	520	667		
Net interest income	(90,363)	(72,144)	(157)	(31)
Hyperinflation adjustments	(515)	(1,425)		
Dividend income	-	-	-	170
(Loss)/Profit on disposal of property and equipment	(20)	(32)	-	-
Operating profit before movements in operating assets and liabilities	**(37,458)**	**(41,238)**	**15,388**	**(1,217)**
Cash reserve ratio	5,500	19,215	-	-
Financial assets at amotised cost	(19,700)	(15,020)	-	-
Financial assets at FVOCI	(45,420)	(21,487)	-	66
Loans and advances	(77,896)	(59,884)	-	-
Balances due from related companies	-	-	(5,140)	9,695
Other assets	(3,370)	(4,412)	28	15
Right of use asset				
Deposits from banks	28,149	(703)	-	-
Other customer deposits	69,917	80,641	-	-
Other liabilities	10,845	(19,392)	554	43
	(69,433)	**(62,280)**	**10,830**	**8,602**
Interest received	114,826	93,354	157	31
Dividend received	-	-	-	(170)
Interest paid	(24,463)	(17,291)	-	-
Income taxes paid	(11,939)	(11,616)	(90)	(5)
Net cash flows from operating activities	**8,991**	**2,167**	**10,897**	**8,458**

(b) Analysis of cash and cash equivalents

Balances with Central Banks	12,606	20,518	-	-
Cash on hand	17,835	15,153	517	1,147
Bank balances	-	-	-	-
Financial assets at amotised cost	946	654	-	-
Advances to banks	26,643	23,706	-	-
Financial assets at FVOCI	-	5,143	-	-
	58,029	**65,174**	**517**	**1,147**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition. Cash and cash equivalents exclude, KShs 41,171 million (2020 - KShs 32,346 million) being the cash reserve requirement held with the Central Banks which is not available for general use by the Group.

Notes (Continued)

44. Notes to the Statement of Cash Flows (Continued)

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held at amortised cost investments, whose reconciliation is as follows:

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Balance as per statement of cash flows	946	654	-	-
Balances with more than three months maturity from the acquisition date	130,181	110,703	-	-
Balance as per statement of financial position	**131,127**	**111,357**	**-**	**-**

45. Commitments

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	Group		Company	
	2021 KShs million	2020 KShs million	2021 KShs million	2020 KShs million
Capital commitments contracted for at year end	2,682	2,130	-	-
Loans committed but not disbursed at year end	7,451	59,603	-	-
Foreign currency commitments	(15,113)	(468)	-	-

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

46. Off Balance Sheet Financial Instruments and Contingent Liabilities

	2021 KShs million	2020 KShs million
Letters of credit	40,822	22,013
Guarantees	59,071	51,362
Forward foreign exchange contract	20,041	19,617
Lease commitment	10,905	12,973
Total	**130,839**	**105,965**

Nature of contingent liabilities

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

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

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

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial standing.

At year end, the Bank had several unresolved legal and tax claims. However, the Bank believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

47. Retirement Benefit Obligations

KCB Pension Fund and Staff Retirement Benefit Scheme

The Group operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Group responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and offshore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

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For the Year Ended 31 December 2021

Notes (Continued)

47. Retirement Benefit Obligations (Continued)
Characteristics and risks of the Fund (Continued)

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 42.9% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.

Following the closing of the Fund as of 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund.

Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

The information below summarizes the scheme assets and liabilities:
Composition of fund assets based on the Investment Manager's reports as of 31 December 2021.

	2021 KShs million	2021 %	2020 KShs million	2020 %
Property	1,851	26.97%	3,015	47.98%
Government securities	883	12.87%	2,682	32.28%
Fixed and term deposits	3,852	56.13%	335	4.45%
Quoted equities	35	0.51%	797	12.23%
Corporate bonds	-	0.00%	7	1.78%
Cash and demand deposits	93	1.36%	-	0.00%
Net current liability	149	2.17%	194	1.28%
Total	**6,863**	**100%**	**7,030**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2021 KShs million	2020 KShs million
At start of year	7,207	7,318
Transfers at 1 January 2016 from KCB Group PLC		
Current service cost (net of employer contributions)	62	58
Interest cost	897	897
Actuarial gains/(losses) due to changes in assumptions	83	- 64
Benefits paid	(928)	(1,002)
At end of year	**7,321**	**7,207**

Changes in the fair value of plan assets over the year

At start of year	(7,030)	(8,209)
Transfers at 1 January 2016 from KCB Group PLC		
Interest income on plan assets	(881)	(1,013)
Employer contributions	(215)	(49)
Actuarial gains/(loss)	335	1,239
Benefits paid	928	1,002
At end of year	**(6,863)**	**(7,030)**

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

Reconciliation of liability in the statement of financial position:

	2021 KShs million	2020 KShs million
Present value of fund obligations	7,321	7,207
Fair value of plan assets	(6,863)	(7,030)
Effect of asset ceiling at end of period	-	-
Asset recognised in the statement of financial position	**458**	**177**

Notes (Continued)

47. Retirement Benefit Obligations (Continued)
Characteristics and risks of the Fund (Continued)

The amount recognised in profit and loss for the year are as follows:

	2021 KShs million	2020 KShs million
Service cost		
Current service cost (employer)	62	58
Total service cost	**62**	**58**
Interest cost		
Interest cost on defined benefit obligation	897	897
Interest income on plan assets	(881)	(1,013)
Interest on the effect of the asset ceiling	-	117
Net interest cost on balance sheet liability	**16**	**1**
Net included in profit and loss in respect of the scheme	**78**	**59**
Re-measurement (other comprehensive income)		
Actuarial loss – obligation	83	(64)
Return on plan assets (excluding amount in interest cost)	335	1,239
Change in effect of asset ceiling (excluding amount in interest cost)	-	(1,008)
Amount recognised in other comprehensive income	**418**	**167**

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	2021	2020
Discount Rate (% p.a.)	13.00%	13.20%
Future salary increases (% p.a.)	6.00%	6.00%
Future pension increases (% p.a.)	0.00%	0.00%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) Ultimate	a(55) Ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 Years	55 Years

Sensitivity Analysis
The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, The Group has relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	2021 KShs million	2020 KShs million
Present value of obligation	**7,321**	**7,777**

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in-service members.

48. Hyperinflation
For the financial year ended 31 December 2021, the directors evaluated and determined the economy of South Sudan to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group complied with the requirements of IAS 29 - Financial reporting in Hyperinflationary Economies on the individual financial statements for the year ending 31 December 2021. The standard requires significant judgments to be made by the financial statement preparer considering guidelines provided in IAS 29. Consequently, for the individual entity, the financial statements and corresponding figures for previous periods are restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period. The consolidated financial statements have been adjusted to reflect changes in KCB Bank South Sudan as indicated above.

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;

(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;

(c) Interest rates and wages are frequently adjusted to compensate the loss of purchasing power; and

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For the Year Ended 31 December 2021

Notes (Continued)

47. Hyperinflation (Continued)

(d) The cumulative inflation rate over the past three years exceeding 100%.

The cumulative three years' inflation rate was approximately 100.29% as at 31 December 2021 (2020: 100.88%) in South Sudan. The data below represents the Consumer Price Indexes (CPI) used in 2016 and prior year restatements in the KCB Bank South Sudan individual financial statements for the year ending 31 December 2021. The source of the price indexes used was the International Monetary Fund (IMF).

	CPI
CPI as at 31 December 2019	6,642.19
CPI as at 31 December 2020	6,223.17
CPI as at 31 December 2021	6,471.78
Average CPI in 2019	11,136.61
Average CPI in 2020	6,337.68
Average CPI in 2021	7,054.81

Notes

Notice

KCB GROUP PLC
(Incorporated in Kenya under the Companies Act, 2015, Laws of Kenya)

(Registration Number C 9/88)

NOTICE OF THE 51ST ANNUAL GENERAL MEETING

Notice is hereby given that the 51st Annual General Meeting of the shareholders of KCB Group PLC ("Company") will be held via electronic communication, on **Friday, 3 June 2022** at **10.00 a.m.** when the business set out below will be transacted:

AGENDA

1. Constitution of the Meeting
To read the notice convening the meeting and determine if a quorum is present.

2. Ordinary Business

i) Report and Financial Statements for the Year ending 31 December 2021.

To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ending 31 December 2021 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer & Managing Director, and the Auditor thereon.

ii) Dividend

To confirm the interim dividend of KShs. 1.00 per ordinary share paid on 5 January 2022 and to declare a final dividend of KShs. 2.00 per ordinary share, payable, net of withholding tax, on or about **7 July 2022** to shareholders on the Register of Members at the close of business on **25 April 2022.**

iii) Election of Directors

(a) In accordance with Articles 94, 95 and 96 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:
(i) Mr. Lawrence Njiru
(ii) Mr. Andrew W Kairu

(b) In accordance with Articles 94 and 95 of the Company's Articles of Association, the following Director retires by rotation, and does not offer herself for re-election:
(i) Ms. Georgina Malombe

(c) In accordance with Article 101 of the Company's Articles of Association, the following director, having been appointed by the Board to fill in a casual vacancy, retires from the Board and being eligible offers herself for re-election.
(i) Mrs. Alice Kirenge

(d) In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit & Risk Committee be elected to continue to serve as members of the said Committee:
(i) Mrs. Anne Eriksson
(ii) Dr. Obuya Bagaka
(iii) Mrs. Alice Kirenge

iv) Remuneration of Directors

To receive, consider and, if thought fit, approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.

v) Appointment of Auditors

To re-appoint Messrs. PricewaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting and to authorize the Directors to fix the remuneration of the Auditors.

By order of the Board

Bonnie Okumu

Group Company Secretary
11 May 2022

Notice

Notes:

1. KCB Group Plc has convened and will conduct its 51st Annual General Meeting via virtual/electronic means in line with The Companies Act, 2015.
2. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:
   a) dialling *483*905# for all Kenyan telephone networks and following the various registration prompts; or
   b) sending an email request to be registered to kcbshares@image.co.ke

   Shareholders with email addresses will receive a registration link via email through which they can use to register.
3. To complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number at hand. For assistance shareholders should dial the following helpline number: **(+254) 709 170 037/ 709 170 034** from **9:00 a.m.** to **5:00 p.m.** from **Monday** to **Friday.** Any shareholder outside Kenya should dial the helpline number to be assisted to register.
4. Registration for the AGM opens on **Wednesday, 11 May 2022** at **9.00 a.m.** and will close on **Tuesday, 31 May 2022** at **11.00 a.m.** Shareholders will not be able to register after **Tuesday 31 May 2022** at **11.00 a.m.**
5. In accordance with Section 283 (3) of the Companies Act, the following documents may be viewed on the Company's website www.kcbgroup.com
   a) a copy of this Notice and the proxy form.
   b) the Company's Annual Report & Audited financial statements for the year ended 31 December 2021.

   The reports may also be accessed upon request by dialling the USSD code above and selecting the reports option. The reports and agenda can also be accessed on the livestream link.
6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   a) sending their written questions by email to kcbshares@image.co.ke; or
   b) shareholders who will have registered to participate in the meeting shall be able to ask questions via sms by dialing the USSD code above and selecting the option (Ask Question) on the prompts; or
7. to the extent possible, physically delivering their written questions with a return physical, postal or email address to the registered office of the Company at **Kencom House, P. O. Box 48400 – 00100, Nairobi,** or to **Image Registrars offices at 5th floor, Absa Towers** (formerly Barclays Plaza), Loita Street.

   Shareholders must provide their full details (full name, National ID/Passport Number/CDSC Account Number) when submitting their questions and clarifications.
8. All questions and clarification must reach the Company on or before **Tuesday 31 May 2022** at **5.00 p.m.**

   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 AGM. 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 AGM.
9. 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. A proxy form is attached to this Notice and is available on the Company's website via this link: www.kcbgroup.com 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 P. O. Box 9287 – 00100. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company to arrive not later than **10.00 a.m.** on **Tuesday, 31 May 2022.**

   Duly signed proxy forms may also be emailed to kcbshares@image.co.ke in PDF format. A proxy form 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 the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.
10. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. 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 before the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hour's time and providing a link to the live stream.
11. 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) via the USSD prompts.
12. Results of the AGM shall be published on the Company's website within 24 hours following conclusion of the AGM.
13. Shareholders are encouraged to continuously monitor the Company's website www.kcbgroup.com for updates relating to the AGM.

Proxy Form

The Group Company Secretary,
KCB Group Plc,
Kencom House, Moi Avenue,
P. O. Box 48400 – 00100,
Nairobi, Kenya

I/WE ______________________________ of ______________________________

Being a shareholder of KCB Group PLC hereby appoint ______________________(see notes 2 and 3) (Name of proxy) of

P.O.BOX______________ and whose mobile phone number for purposes of registration and voting is ______________OR

FAILING WHOM, the Chairman of the Meeting in respect of my ______________________ (Number of shares). Please indicate here if

you are appointing more than one proxy (including the mobile phone number of such proxy) ______________ (see note 3) as my/our proxy

to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held electronically on Friday 3 June

2022 at 10.00 am and at any adjournment thereof.

Signed this______________ day of______________ 2022

Signature(s) ______________________________

i) ______________________________ ii) ______________________________

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with an "X". If no indication is given, my/our proxy will vote or withhold his or her vote at his or her discretion and I/WE authorize my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matter which is properly put before the Meeting.

Please clearly mark the box below to instruct your proxy how to vote.

RESOLUTION	FOR	AGAINST	ABSTAIN
Approve the Report and Financial Statements for the Year ending 31 December 2021 Confirm the interim dividend of KShs. 1.00 per ordinary share paid on 5 January 2022 and approve a final dividend of KShs. 2.00 per ordinary share, payable, net of withholding tax, on or about 7 July 2022 to shareholders on the Register of Members at the close of business on 25 April 2022.			
Re-election of Mr. Lawrence Njiru			
Re-election of C. S. – Mr. Andrew W. Kairu			
Appointment of Mrs. Alice Kirenge as a Director having been appointed by the Board to fill in a casual vacancy and being eligible offers herself for re-election.			
Audit Committee: In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee: (i) Mrs. Anne Eriksson, (ii) Dr. Obuya Bagaka and (iii) Mrs. Alice Kirenge			
Approve the Directors' Remuneration Report and authorize the Board to fix the remuneration of Directors.			
To re-appoint Messrs. PricewaterhouseCoopers, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting and authorize the Directors to fix the remuneration of the Auditors.			

Proxy Form

ELECTRONIC COMMUNICATIONS PREFERENCE FORM

Please complete in BLOCK CAPITALS

Full name of member(s): ____________________

____

____

Address: ____________________

____

____

CDSC No. (if known) ____________________

(This can be found on your CDSC Statement)

Mobile Number [ ]

Date: ____________________

Signature: ____________________

Please tick **ONE** of the boxes below and return to Image Registrars at P.O. Box 9287 – 00100 Nairobi, 5 Floor, Absa Towers (formerly Barclays Plaza), Loita Street:

Approval of Registration

I/WE approve to register to participate in the virtual Annual General Meeting to be held on 3 June 2022.

Consent for use of the Mobile Number provided

I/WE would give my/our consent for the use of the mobile number provided for purposes of voting at the AGM

1. If a member is unable to attend personally, this Proxy Form should be completed, duly signed and returned to reach the Company's share th registrar, **Image Registrars Limited,** 5th Floor, Absa Towers (formerly Barclays Plaza), Loita Street, P. O. Box 9287 – 00100 Nairobi or can be scanned and emailed to kcbshares@image.co.ke in PDF format, to arrive not later than **10:00 a.m.** on **Tuesday 31 May 2022** i.e. 48 hours before the meeting or any adjournment thereof.

2. In case of a member being a corporate body, the Proxy Form must be under given under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.

3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint any other person as a proxy, delete the words "the Chairman of the Meeting or" and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.

4. Completion and submission of the Proxy Form will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.

5. A "vote withheld" option has been included on the Proxy Form. The legal effect of choosing this option on any resolution is that you will be treated as not having voted on the relevant resolution. The number of votes in respect of which votes are withheld will, however, be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.


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