KINGDOM BANK
A Subsidiary of The Co-operative Bank of Kenya

2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

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Corporate Information

Board of Directors

Mrs. Margaret Karangatha
Chairperson

Mr. Macloud Malonza HSC.
Vice Chairperson

Mr. Julius Sitienei
Director

Mr. Wanyambura Mwambia
Director

Mr. Charles Kamari
Director

Dr. Gideon Muriuki CBS, MBS
Group Managing Director & CEO

Mr. Anthony Mburu
Managing Director & CEO

Mr. Samuel Kibugi
Group Company Secretary
Alternate to the Group
Managing Director

Mrs. Caroline Karimi
Group Director Finance and Strategy
Alternate to the Group
Managing Director

Ms. Victoria Cherotich
Company Secretary

Corporate Information (Continued)

To leverage on the Cooperative Bank's Corporate Governance expertise and wide experience in the specific matters, the Kingdom Bank's Board in the medium term approved to have all matters relating to Audit, Credit, Staff issues and Risk Management be handled by Cooperative Bank's Group Committees as constituted below:

Board Audit Committee

Mrs. Weda Welton	Chairperson
Mr. Lawrence Karissa	
Mr. Wanyambura Mwambia	
Mr. Patrick Githendu	
Mr. Benedict Simiyu	

Board Credit Committee

Mrs. Margaret Karangatha	Chairperson
Mr. John Murugu OGW	
Mr. Macloud Malonza HSC	
Mr. Wilfred Ongoro HSC	
Mr. Richard L. Kimanthi	
Dr. Gideon Muriuki CBS, MBS	

Board Staff & Nomination Committee

Mr. Lawrence Karissa	Chairperson
Mr. John Murugu OGW	
Mrs. Weda Welton	
Mr. Julius Sitienei	
Mr. Godfrey K. Mburia	

Board Risk Committee

Mrs. Margaret Karangatha	Chairperson
Mr. Lawrence Karissa	
Mr. Patrick Githendu	
Mr. Benedict Simiyu	
Mr. Wanyambura Mwambia	

Company Secretary

Image Registrars
Certified Public Secretaries (Kenya)
Fifth Floor, Barclays Plaza, Loita Street
P.O. Box 61120 - 00100
Nairobi

Registered Office

Kingdom Bank Towers
Argwings Kodhek Road
P.O. Box 22741 - 00400
Nairobi

Auditors

Deloitte
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092 - 00100
Nairobi

Report of The Directors

The Directors submit their annual report and the audited financial statements of Kingdom Bank Limited (the "Bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2023 which shows the state of financial affairs of the Group and the Bank.

Principal Activities

The principal activities of the Group are the provision of banking and related services, insurance agency services, and equipment leasing services.

GROUP RESULTS FOR THE YEAR

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Profit before tax	1,080,687	792,556	1,063,532	803,773
Income tax expense	(419,616)	124,365	(408,373)	126,396
Profit for the year	661,071	916,921	655,159	930,169
	========	=======	========	=======

Consolidated Information

The Bank has two registered subsidiary companies, Kingdom Leasing Limited and Kingdom Bancassurance Intermediary Limited, which commenced operations in the year 2016 and 2015 respectively.

The consolidated information relates to the operations of the Bank and the two subsidiaries.

Dividend

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2023 (2022 – Sh nil).

Directors

The Directors who served in office during the year are shown on page 2.

Directors' Statement as to the Information Given to Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Business Review

Operating Environment

During the year under review, Kenya's economic performance strengthened despite continued challenges with real GDP growth accelerating from 4.8% in 2022 to an estimated 5% in 2023 with the improved growth performance attributable to a strong rebound in the agricultural sector which had faced a persistent and severe drought in the year 2022 as well as a moderate growth in the services sector.

The rebound of the agricultural sector led to improvements in food supply and coupled with monetary policy tightening has helped reduce inflationary pressures. In 2023, tourism continued to expand, credit to the private sector improved and manufacturing activity was expected to improve from the anticipated growth in agro-processing sector.

Despite the above however, the operating environment during the year under review remained challenging with the growth momentum subdued by heightened fiscal and external vulnerabilities manifested through high public debt, elevated cost of living, exchange rate pressures, global economic uncertainties, and tight global financial conditions.

The year under review also saw the Central Bank of Kenya (CBK) benchmark rate increased by 375 basis points (2022:175) to close at 12.5% (2022: 8.75%) in a deliberate bid by the monetary policy committee (MPC) to contain inflation expectations. Overall inflation remained within the target range to close at 6.63% (2022: 7.66%) percent in 2023 mainly driven by higher food and fuel prices.

Total banking sector customer deposits increased by 19.3% y/y to KES 5.50Tn, up from KES 4.63Tn in September 2022 faster than the 14.2% growth in loans. This robust growth in deposits could be attributed to customers' intent to preserve liquidity, rising interest rates, and commercial banks' leveraging of digital channels to enhance deposit mobilization. Consequently, the sectors' loan to deposit ratio (LDR) stood at 74.6% which indicates that commercial banks predominantly leveraged on deposits to fund its loans and advances to customers. The average LDR is however lower than the 77.7% recorded in September 2022.

Generally, the industry recorded significant growth in interest income driven by higher lending rates as well as higher interest rate on government securities. Similarly, interest expenses grew driven by an increase in the effective interest rate on customer deposits. Notably, the growth in interest expense outpaced the growth in interest income for the sector leading to compressed net interest

Report of The Directors (Continued)

rate margins. Higher interest expenses without a proportionate increase in interest income compressed the net interest margins which further exacerbated the interest rate risk for the industry.

The industry at large remained stable and resilient in 2023 characterized by strong capital and liquidity buffers. The sector recorded improved performance against a backdrop of a challenging macro-economic environment. The improved performance was largely supported by rising interest rates as well as continued economic recovery.

Market Description and Branch Networks

The Bank has a footprint of 19 branches (2022:17 branches), serving over 352,271 (2022:177,317) customers across the country in 10 counties targeting Salaried workers, Micro Small and Medium Enterprises as well as select institutional customers. In addition there is a myriad of other customer touch points including 7 ATMs/CDMs, mobile and internet banking services and access to VISA ATMs/POSs and 27,000 Coop Kwa Jirani Agents. The Bank is scheduled to open four new branches in the next 12 months to bring the footprint to 23 in a bid to penetrate the market even further.

Products and Services

Over the years, Kingdom Bank Limited has developed several products in response to the needs of its clients. Because these needs are dynamic and keep changing according to social economic trends, Kingdom Bank Limited commits to remain relevant to its clientele. Kingdom Bank Limited's products and services which are customer centric range from current accounts, savings accounts, term accounts, term loans, business loans as well as insurance and leasing products.

Operating Environment

During the year under review, Kenya's economic performance strengthened despite continued challenges with real GDP growth accelerating from 4.8% in 2022 to an estimated 5% in 2023 with the improved growth performance attributable to a strong rebound in the agricultural sector which had faced a persistent and severe drought in the year 2022 as well as a moderate growth in the services sector.

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Risk Management

The Bank has put in place a robust risk management and corporate governance framework that scopes and explains the components of business risks, financial risks, operational risks as well as detailing the mitigation and response plans for each category of risk. The year ended 31 December 2023 was characterized by a myriad of risks ranging from uncertainties in the geopolitical environment and a turbulent operating environment which led to tight liquidity stances as well as heightened inflationary pressures which dampened consumers purchasing power with the direct consequence of

Report of The Directors (Continued)

curtailing consumption at the household level. The Bank will continue to monitor all risks affecting its business to ensure appropriate actions are taken to reduce potential impact.

Refer to note 4 of the financial statements for a description of the Bank's financial risks and how they are mitigated.

Future Outlook

The Kenyan economy remains resilient against a challenging global backdrop even as it recovers from the legacy of the COVID-19 pandemic, the worst multi-season drought over the past two years

and the 2022 election hang-ups. The economy expanded by 5.6 percent y/y in the first nine months of 2023, driven by a strong recovery in agriculture which also helped lower both overall and food inflation.

The external current account balance has improved as real exchange rate depreciated and imports contracted. Exports and remittances remained resilient. While foreign exchange reserves remain adequate, they declined in the second half of 2023 amid debt service payments and limited external financing in flows.

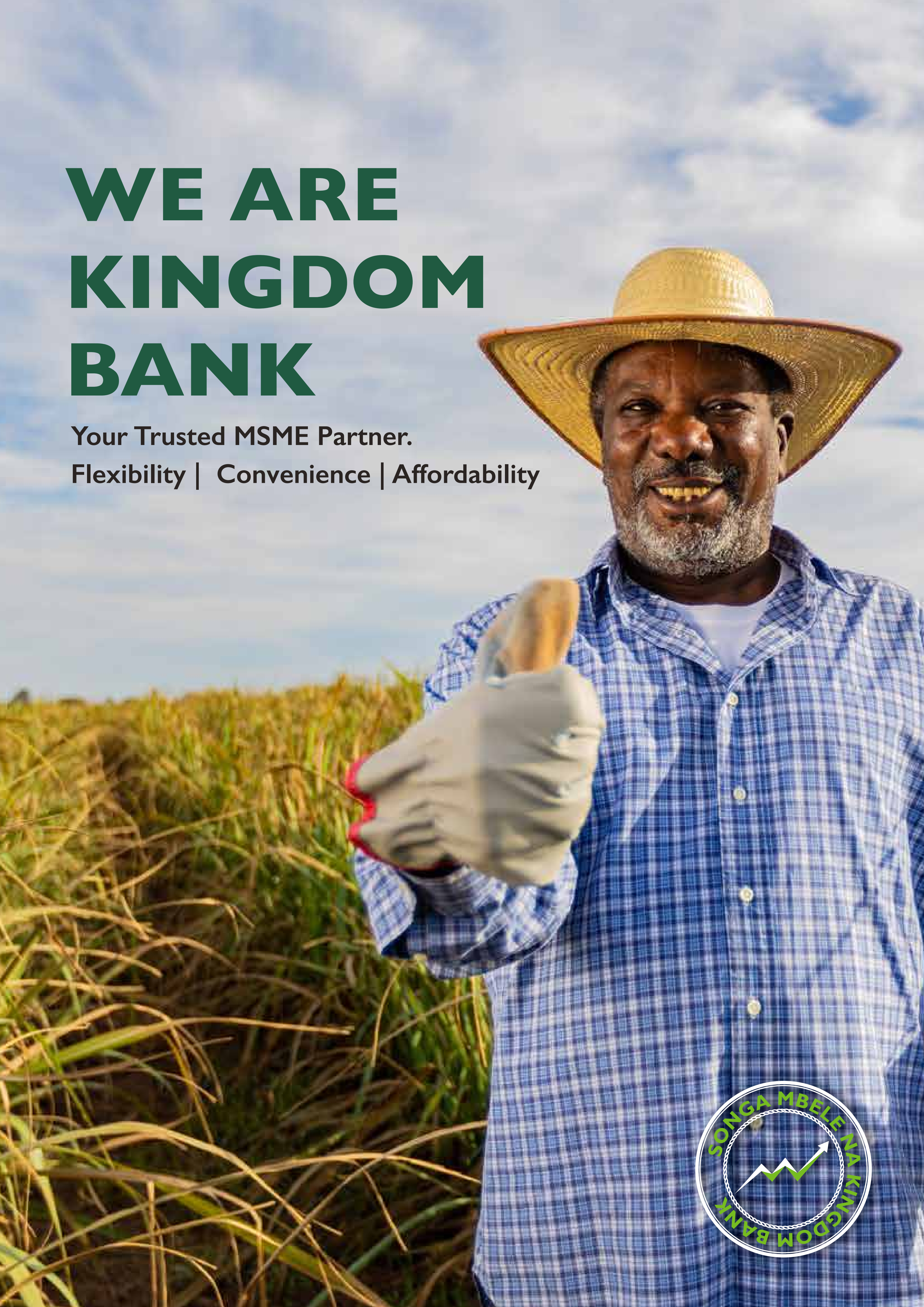
The near-term outlook is one of continued resilience with growth projected at around 5% in 2024 amid ongoing adjustments in the fiscal policy and external accounts. Inflation is expected to inch up in the first half of 2024, driven primarily by global oil price volatility and exchange rate passthrough, but to remain contained due to the recent monetary policy tightening and as the government strives to deliver a stronger fiscal consolidation to stabilize the overall public debt/GDP in 2024.

The Bank maintains a positive outlook of the industry and country as a whole and anticipates an improved performance into 2024. The Bank will continue positioning itself through customer empowerment by offering meaningful financial education, proactively addressing customer needs, community empowerment, offering under one roof integrated financial services. This also includes increasing the penetration and visibility of the digital footprint.

Auditors

Deloitte having expressed their willingness to continue in office in accordance with provisions of section 719 (2) of the Kenyan 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.

By Order of the Board
Secretary
Nairobi, Kenya


WE ARE KINGDOM BANK
Your Trusted MSME Partner.
Flexibility | Convenience | Affordability
SONGA MBELE NA KINGDOM BANK

Statement on Corporate Governance

Board of Directors

Kingdom Bank Limited is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the Bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. Board of Directors

The names of the Directors who held office in the year and to the date of this report are set out on page 2.

The Board is responsible for formulating Bank's policies, strategies, and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Bank and implements corporate governance policies of the Bank.

The Board comprises six Non-Executive Directors and one Executive Director. The Directors have diverse skills and are drawn from various sectors of the economy. The Board is committed to the highest standards of corporate governance and best practice in management of the Bank's affairs.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the Board convened and held six ordinary meetings.

The Bank's Secretary sits in the Board meetings and is responsible for monitoring and coordinating the completion and dispatch of Board and committee agenda, papers and other briefing materials. The secretary is always available to the Board of Directors.

a) Board Evaluation

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees, an annual self-evaluation review is undertaken. The self-evaluation reviews the capacity, functionality and effectiveness of the Board and individual directors during the financial year. The review is also in accordance with the requirements of the Central Bank of Kenya Prudential Guidelines on Corporate Governance.

The evaluation measures the performance of the Board against its key duties and responsibilities, that of its committees and individual members of the Board. The annual board evaluation was carried out in March 2023 and a similar one is scheduled for 2024.

b) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 33(e) to the financial statements for the year ended 31 December 2023. The Bank advanced loans to Directors and their associated companies as disclosed in Note 33.

c) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Bank and its Directors or Management except those disclosed in Note 33 to the financial statements for the year ended 31 December 2023.

2. Board Committees

The Board has in place four committees, namely the Audit Committee, Credit Committee, Board Staff & Nomination committee, and the Risk Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. The committees' duties were duly assigned to the respective Group Committees during the year under review.

These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Bank's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day-to-day running of the Bank is delegated to the Chief Executive Officer.

Audit Committee

The committee reviews internal controls as well as overall responsibility over operations, legal and regulatory compliance as well as information systems.

Credit Committee

This committee reviews all lending to ensure that they are undertaken per the Bank's policy framework, are within legal framework, Central Bank Prudential Guidelines and meet risk guidelines. Delegated lending to management are monitored via reviewing of lending reports to ensure that the Bank's policies are adhered to.

Board Staff & Nomination Committee

This committee manages the Human Resource function of the Bank by ensuring that the Bank hires and retains the best human resources, rewards them appropriately and ensures that performance appraisal systems are working well.

Risk Committee

The objective of this Committee is to provide independent oversight of the Group's risk management and independent compliance functions in the Bank and outline the scope of risk management work, monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective

Board of Directors (Continued)

impact, provide independent and objective oversight and review of the information presented by the management to ensure that risk policies and strategies are effectively monitored and managed and taking account of performance and risk appetite, risk trends, risk concentrations and key performance Indicators for risk.

3. Risk Management and Internal Control

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The Bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. The Bank has in place a chain of controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. Business Ethics

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect,
transactions with its decants, intermediaries, retrocession Aires, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

As part of its policy, the Bank recognises the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The Bank assists its staff to undertake continuous professional and development training programs to fulfil their potential. This process is appropriately managed to align staff development with the Bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. Shareholders

The composition of shareholders and their individual holdings at the year ended 2023 and 2022 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines.

7. Board and Committee Meetings Attendance

The Board meets at least once per quarter. Committee meetings are held on monthly basis. Additional meetings are also held as demanded by special circumstances. During 2023, the Board held six meetings. Attendance of Board meetings by Directors was as follows:

Name	Number of meetings held while in office	Number of meetings attended	Percentage of meetings attended
Mrs. Margaret Karangatha-Chair	6	6	100%
Mr. Macloud Malonza HSC	6	6	100%
Dr. Gideon Muriuki-CBS, MBS	6	6	100%
Mr. Juilius Sitienei	6	6	100%
Mr. Charles Kamari	2	2	100%
Mr. Wanyambura Mwambia	2	2	100%
Mr. Anthony Mburu	6	6	100%

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015, requires the Directors to prepare separate and consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure that the Bank and its subsidiaries keep proper accounting records that are sufficient to show and explain the transactions of the group and which disclose, with reasonable accuracy, the financial position of the Group and the Bank. The Directors are also responsible for safeguarding the assets of the Group, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the preparation and presentation of separate and consolidated financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

The Directors also accept responsibility for:

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

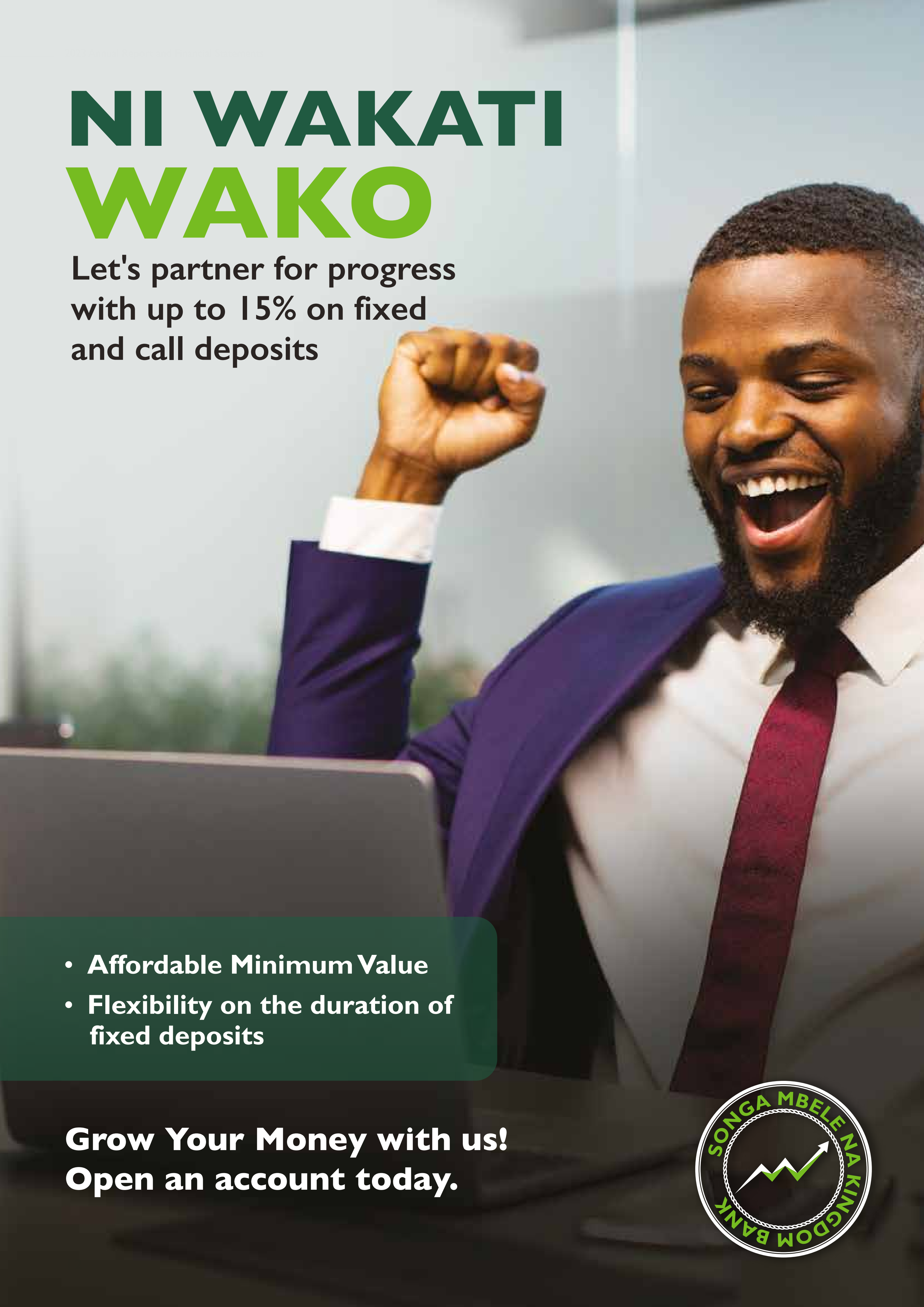
Having made an assessment of the Group's and Bank's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Bank's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the separate and consolidated financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 19th March 2024 on its behalf by:

Chairperson

Managing Director


NI WAKATI
WAKO
Let's partner for progress
with up to 15% on fixed
and call deposits
• Affordable Minimum Value
• Flexibility on the duration of
fixed deposits
Grow Your Money with us!
Open an account today.
SONGA MBELE NA KINGDOM BANK

Independent Auditors' Report to the Shareholders of Kingdom Bank Limited

Report on the Audit of the Consolidated and the Separate Financial Statements

Opinion

We have audited the accompanying consolidated and separate financial statements of Kingdom Bank Limited (the "Bank") and its subsidiaries (together, the "Group"), set out on pages 15 to 86, which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Kingdom Bank Limited at its subsidiries as at 31 December 2023 and of its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan 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 Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements section of this report. We are independent of the Group and the Bank in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, 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 these requirements.

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

Other Information

The Directors are responsible for the other information, which comprises the report of the Directors, statement on Corporate Governance and the Statement of Directors' Responsibilities. The other information does not include the consolidated and separate financial statements and our auditors' report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and the Separate Financial Statements The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act, 2015 and for such internal controls as the Directors determine are necessary to enable the preparation of the consolidated and the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and the separate financial statements, the Directors are responsible for assessing the Group and Bank's ability to continue as going concerns, 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 and the Bank or to cease operations, or have no realistic alternative but to do so. The Directors are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and the separate 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 ISA's 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

Independent Auditors' Report (Continued)

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as going concerns. 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 consolidated and the separate 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 and the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and the Bank audit. We remain solely responsible for our audit opinion.

We communicate with the Directors, 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.

Report on Other Matters Prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the Report of the Directors on pages 4, 5, 6 and 7 is consistent with the consolidated and separate financial statements.

The engagement partner responsible for the audit resulting in this independent auditors' report is **CPA Fred Aloo, Practicing Certificate No. 1537.**

For and on behalf of Deloitte
Certified Public Accountants (Kenya)
Nairobi

28 March 2024

Financial Statements:

Kingdom Bank Limited
Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2023

		Group		Bank	
	Note	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
INTEREST INCOME	**6**	**3,738,371**	**3,244,033**	**3,738,371**	**3,244,033**
INTEREST EXPENSE	**7**	**(945,565)**	**(598,291)**	**(945,565)**	**(598,291)**
NET INTEREST INCOME		**2,792,806**	**2,645,742**	**2,792,806**	**2,645,742**
Fees and commission income	8 (a)	348,475	234,564	347,620	234,564
Foreign exchange gains/(losses)	8 (b)	105,366	43,394	105,366	43,394
Other operating income/(losses)	9	79,864	134,466	14,098	71,647
OPERATING INCOME		**3,326,511**	**3,058,166**	**3,259,890**	**2,995,347**
Operating expenses	10	(1,932,740)	(1,702,451)	(1,875,425)	(1,649,973)
Net expected credit loss on loans and advances to customers	17 (a)	(297,709)	(462,981)	(297,709)	(462,981)
Net expected credit loss on other financial assets	17 (b)	(15,375)	(100,178)	(23,224)	(78,620)
PROFIT BEFORE TAX		**1,080,687**	**792,556**	**1,063,532**	**803,773**
INCOME TAX EXPENSE	**12**	**(419,616)**	**124,365**	**(408,373)**	**126,396**
PROFIT FOR THE YEAR		**661,071**	**916,921**	**655,159**	**930,169**
OTHER COMPREHENSIVE INCOME *Items that may be reclassified subsequently to profit or loss:*					
Fair value (loss)/gain on re-measurement of investments measured at FVTOCI	14(b)	(996,073)	(996,589)	(996,073)	(996,589)
Total other comprehensive (loss)/income for the year		(996,073)	(996,589)	(996,073)	(996,589)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(335,002)**	**(79,668)**	**(340,914)**	**(66,420)**

Kingdom Bank Limited
Consolidated and Separate Statements of Financial Position as at 31 December 2023

		Group			Bank	
			Restated	Restated		
		2023	2022	2021	2023	2022
	Note	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
ASSETS						
Cash and balances with Central Bank of Kenya	13	1,967,604	1,019,517	620,372	1,967,604	1,019,517
Government securities	14	20,959,785	24,166,007	23,650,622	20,959,785	24,166,007
Deposits and balances due from banking institutions	15	809,989	33,448	318,903	799,989	23,147
Loans and advances to customers (net)	16	9,816,135	6,205,715	4,432,540	9,816,135	6,205,715
Other assets	18	1,698,051	1,616,396	1,243,000	1,378,329	1,309,852
Corporate tax recoverable	12(c)	-	6,076	109	-	109
Property and equipment	19	1,130,174	1,094,850	1,079,807	1,093,073	1,068,911
Intangible assets - computer software	20	31,235	24,931	26,966	31,235	24,931
Equity investments	22 (a)	10,916	12,640	13,215	10,916	12,640
Investment in subsidiaries	22 (b)	-	-	-	255,039	6,039
Due from related companies	33 (c)	-	-	-	168,747	399,710
Deferred tax asset	21	130,281	355,795	222,627	129,511	351,902
Right of use assets	23	110,035	71,415	57,689	110,035	71,415
TOTAL ASSETS		**36,664,205**	**34,606,790**	**31,665,850**	**36,720,398**	**34,659,895**
LIABILITIES						
Customer deposits	24	12,167,936	9,516,407	6,275,523	12,296,313	9,641,403
Deposits and balances due to banking institutions	25	2,282,595	1,743,653	1,734,857	2,282,595	1,743,653
Medium term loans	26	1,893,589	145,233	253,996	1,893,589	145,233
Long term loan	27	17,965,714	20,960,000	20,960,000	17,965,714	20,960,000
Other liabilities	28	605,243	372,730	476,427	509,282	279,898
Due to related company	33 (b)	163	162	144	163	162
Corporate tax payable	12 (c)	177,125	-	6,110	185,873	-
Lease liabilities	29	110,111	71,874	63,640	110,111	71,874
TOTAL LIABILITIES		**35,202,476**	**32,810,059**	**29,770,697**	**35,243,640**	**32,842,223**
SHAREHOLDERS' FUNDS						
Share capital	30	1,867,947	1,867,947	1,867,947	1,867,947	1,867,947
Share premium	30	3,087,449	3,087,449	3,087,449	3,087,449	3,087,449
Statutory credit risk reserve		-	-	690,045	-	-
Accumulated losses		(1,511,674)	(2,172,745)	(3,760,957)	(1,496,645)	(2,151,804)
Investment revaluation reserve	32	(1,981,993)	(985,920)	10,669	(1,981,993)	(985,920)
SHAREHOLDERS' FUNDS		**1,461,729**	**1,796,731**	**1,895,153**	**1,476,758**	**1,817,672**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**36,664,205**	**34,606,790**	**31,665,850**	**36,720,398**	**34,659,895**

The financial statements on pages 15 to 86 were approved and authorised for issue by the Board of Directors on 19 March 2024 and were signed on its behalf by:

Chairperson ______________________ **Managing Director & CEO** ______________________

Company Secretary ______________________

Kingdom Bank Limited
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2023

		Share Capital	Share Premium	Accumulaed Losses	Investment Revaluation Reserve	Statutory Credit Risk Reserve	Total
		Sh'000	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**
At 1 January 2021		1,867,947	3,087,449	(3,931,555)	114,897	449,841	1,588,579
Total comprehensive income for the year		-	-	519,759	(104,228)	-	415,531
Transfer to statutory credit risk reserve		-	-	(240,204)	-	240,204	-
Accelerated depreciation on finance leases	19	-	-	(108,957)	-	-	(108,957)
At 31 December 2021-as restated		1,867,947	3,087,449	(3,760,957)	10,669	690,045	1,895,153
		========	========	========	=======	=======	========
At 31 December 2021-as previously reported		1,867,947	3,087,449	(3,652,000)	10,669	690,045	2,004,110
Prior year adjustment	35	-	-	(108,957)	-	-	(108,957)
At 1 January 2022-restated		1,867,947	3,087,449	(3,760,957)	10,669	690,045	1,895,153
Total comprehensive income for the year		-	-	916,921	(996,589)	-	(79,668)
Utilization of statutory credit risk reserve		-	-	690,045	-	(690,045)	-
Accelerated depreciation on finance leases	35	-	-	(18,754)	-	-	(18,754)
At 31 December 2022-as restated		1,867,947	3,087,449	(2,172,745)	(985,920)	-	1,796,731
		========	========	========	========	========	========
At 31 December 2022-as previously reported		1,867,947	3,087,449	(2,045,034)	(985,920)	-	1,924,442
Prior year adjustment	35	-	-	(127,711)	-	-	(127,711)
At 1 January 2023-restated		1,867,947	3,087,449	(2,172,745)	(985,920)	-	1,796,731
Total comprehensive income for the year		-	-	661,071	(996,073)	-	(335,002)
At 31 December 2023		1,867,947	3,087,449	(1,511,674)	(1,981,993)	-	1,461,729
		========	========	========	========	========	========

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of available for sale investments excluding impairment losses.The reserve is not distributable to the shareholders.

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over net impairment of loans and advances computed per IFRS 9.The statutory reserve is not distributable.

Kingdom Bank Limited
Bank Statement of Changes in Equity
for the Year Ended 31 December 2023

	Note	Share capital Sh'000	Share premium Sh'000	Accumulated losses Sh'000	Investment revaluation reserve Sh'000	Statutory credit risk reserve Sh'000	Total Sh'000
At 1 January 2022		1,867,947	3,087,449	(3,772,018)	10,669	690,045	1,884,092
Total comprehensive income for the year		-	-	930,169	(996,589)	-	(66,420)
Utilization to statutory credit risk reserve		-	-	690,045	-	(690,045)	-
At 31 December 2022		1,867,947	3,087,449	(2,151,804)	(985,920)	-	1,817,672
At 1 January 2023		1,867,947	3,087,449	(2,151,804)	(985,920)	-	1,817,672
Total comprehensive income for the year		-	-	655,159	(996,073)	-	(340,914)
At 31 December 2023		1,867,947	3,087,449	(1,496,645)	(1,981,993)	-	1,476,758

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of investments measured at fair value through other comprehensive income excluding impairment losses.The reserve is not distributable to the shareholders.

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over net impairment of loans and advances computed per IFRS 9.The statutory reserve is not distributable.

Kingdom Bank Limited
Consolidated and Separate Statements of Cash Flows for the Year Ended 31 December 2023

		Group		Bank	
		2023	2022	2023	2022
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operating activities	31 (a)	2,500,803	297,042	2,702,950	270,760
Tax paid	12 (c)	(10,902)	(20,881)	-	-
Net cash generated from operating activities		2,489,901	276,161	2,702,950	270,760
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	19	(99,991)	(146,225)	(63,739)	(146,225)
Purchase of intangible assets-computer software	20	(21,651)	(14,627)	(21,651)	(14,627)
Investment in subsidiary	22 (b)	-	-	(249,000)	(4,900)
Net cash used in investing activities		(121,642)	(160,852)	(334,390)	(165,752)
CASH FLOWS FROM FINANCING ACTIVITIES					
Medium term loan repayments	26	(37,776)	(108,763)	(37,776)	(108,763)
Proceeds from short term loan	26	1,786,132	-	1,786,132	-
Long term loan repayment	27	(2,994,286)	-	(2,994,286)	-
Payment of lease liabilities	29	(49,585)	(40,254)	(49,585)	(40,254)
Net cash used in financing activities		(1,295,515)	(149,017)	(1,295,515)	(149,017))
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		1,072,744	(33,708)	1,073,045	(44,009)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(1,100,340)	(1,066,632)	(1,110,641)	(1,066,632)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31 (b)	(27,596)	(1,100,340)	(37,596)	(1,110,641)
		=========	========	=========	=========

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Kingdom Bank Limited
Notes to the Financial Statements
For the Year Ended 31 December 2023

1 Reporting Entity

KINGDOM BANK LIMITED (the "Bank") together with its subsidiaries (together, "the Group") provide banking and related services. KINGDOM BANK LIMITED and its subsidiaries Kingdom Bancassurance Intermediary Limited and Kingdom Leasing Limited are incorporated in Kenya under the Companies Act, 2015 and are domiciled in Kenya.

The address of the Bank's registered office is as follows:

Kingdom Bank Towers
Argwings Kodhek Road
P.O. Box 22741 – 00400
Nairobi.

The Group and the Bank are ultimately owned by the Co-Operative Bank of Kenya Limited which is domiciled and incorporated in Kenya.

2 Material Accounting Policies

(a) Statement of compliance

The consolidated and separate financial statements of the Bank together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015.

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

(b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

i) New standards and amendments to published standards effective for the year ended 31 December 2023

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Group's financial statements.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below.

IFRS 17	*Insurance Contracts*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

2 Accounting Policies (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)-(continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2023 (Continued)

ii) New and revised IFRS Standards in issue but not yet effective in the year ended 31 December 2023

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the:

Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 — Comparative Information*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current — Deferral of Effective Date*
Amendment to IFRS 16	*Lease Liability in a Sale and Leaseback*
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*
Amendments to IAS 21	*Lack of exchangeability*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

iii) Early adoption of standards

The Group and the Bank did not early adopt new or amended standards in 2023.

Basis of Preparation

The Bank prepares its separate and consolidated financial statements under the historical cost convention as modified to include the revaluation of certain properties and financial instruments that are measured at fair value or revalued amounts at the end of each reporting period, as explained in the accounting policy below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:-

- Level 1 inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement dated.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries for the year ended 31 December 2023. The Bank's subsidiaries are shown in note 22(b).

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

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

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

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

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

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

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.
Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest.

All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment in Subsidiary

Investment in subsidiary companies are stated at cost less impairment loss where applicable.

Interest Income and Expense

Interest income and expense for all interest bearing financial instruments are recognised in profit or loss for the year on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

Fees and Commission Income

In the normal course of business, the Bank earns fees and commission income from a diverse range of services to its customers.

Other fees and commission income, including account servicing fees, commission on local bills discounted and banker's cheques, and placement fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Foreign Currency Trading Income

This arises from the margins, which are achieved through market making and customer business and from changes in market value caused by movements in exchange rates. It comprises gains fewer losses related to trading assets and liabilities, and includes all realised and unrealised foreign exchange differences.

Intangible Assets

Intangible assets comprise the cost of purchased computer software programs and other costs to bring the asset to the usable state. Expenditure is capitalised and amortised using the straight-line method over estimated useful life, of five years.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Property and Equipment

All property and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation and any accumulated impairment losses. Equipment are stated at historical cost less depreciation and any accumulated impairment losses.

Increases in the carrying amount of land and buildings arising from revaluations are credited to other comprehensive income and accumulated in a revaluation reserve under a separate heading in the statement of changes in equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are charged to the profit or loss.
Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost or value of property and equipment over their expected useful lives. The rates generally in use are:

Buildings	Over the remaining period of the land lease
Land	Over the remaining period of the land lease
Office partitions	10% per annum
Motor vehicles	25% per annum
Equipment, fixtures and fittings	10% per annum
Computer equipment	20% per annum

Work in Progress

Work in progress relates to software development costs for the proposed core banking system and patch up models. Costs include direct labour and other direct expenses incurred in respect to the project. Depreciation of the assets commences when the assets are ready for their intended use.

Offsetting

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

Provisions

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

Taxation

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

(i) Current Taxation

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

(ii) Deferred Taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(iii) Current and Deferred Tax for the Year

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

Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the reporting date. Transactions in foreign currencies during the year are translated at the rates ruling at the dates of the transactions. Exchange gains and losses are dealt with in the profit or loss.

Retirement Benefit Costs

i) The Group's defined contribution pension scheme

The Group and the Bank operates a defined contribution scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the Bank. Benefits are paid to retiring staff in accordance with the scheme rules. The Group's contribution is charged to profit or loss.

Ii) Statutory Defined Contribution Pension Scheme

The Group also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

Iii) Other Employee Entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.
Some senior management staff are entitled to gratuity payments. A provision is made for the estimated liability for every month worked and at the expiry of employment contract, the payment is made net of applicable taxes.

Leases

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).

Leases (Continued)

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of the profit or loss.

- Financial instruments – Initial recognition and subsequent measurement

  A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- Financial assets-Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through (FVOCI), it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss (FVTPL).

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through (FVOCI) with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through (FVOCI) with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss (FVTPL)

Financial Assets at Amortised Cost (Debt Instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes loan and advances to customers, government securities and other receivables.

Financial Assets at Fair Value Through Oci (Debt Instruments)

For debt instruments at fair value through (FVOCI), gains or loses are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through (FVOCI) includes investments in Kenya government debt instruments included under government securities.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through (FVOCI) when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group did not make this election during the year.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss (FVTPL) are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through 'arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 4
- Debt instruments at fair value through OCI Note 4

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss (FVTPL), loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include other payables, loans and borrowings and derivative financial instruments.

Subsequent Measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss (FVTPL)
- Financial liabilities at amortised cost (loans and borrowings)

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 25 and Note 26

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Contingent Liabilities

Letters of credit, performance bonds and guarantees are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the profit or loss for the year.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

2 Material Accounting Policies (Continued)

Comparatives

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

3 (A) Critical Judgements in Applying the Entity's Accounting Policies

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical Accounting Judgements in Applying the Bank's Accounting Policies

Deferred Tax Assets

Deferred tax assets are recognised for all deductible temporary differences and tax losses carried forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses carried forward can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Impairment Losses on Loans and Advances

Judgement is made on classification of financial assets assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely for Payment of Principal and Interest (SPPI) on the principal amount outstanding.

Judgement is made in establishing the criterion for determining whether credit risk on the financial instrument has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Losses (ECLs) and selection and approvals of models used to measure ECL.

The Group and Bank recognises loss allowance at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

For credit exposures where there have not been significant increases in credit risk since initial recognition, the Group and the Bank provides for 12-month ECLs. These are classified as Stage 1 assets. For credit exposures where there has been a significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime ECLs. These are classified as Stage 2 assets.

For credit exposures that are credit impaired and in default, similar to stage 2 assets, a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

(Ii) Key Sources of Estimation and Uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:

When measuring ECL the Bank 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.

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.

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.

Property and Equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

Fair Value Measurement and Valuation

Some of the company's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the company uses market – observable data to the extent it is available. Where level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

In applying the lessee accounting for operating leases, the directors make assessment on the following matters which impact the recognition and measurement of the right of use assets and lease liabilities:

- Determination of the appropriate lease period in the contracts with extension and or termination options;
- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

We are digital, make convenient banking transactions through:

- *344#
- The KB Mobile App
- DigiLife (our internet banking platform)
- Kingdom Bank Till and M-Collections solutions

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

4 Financial Risk Management

Introduction and Overview

The Group has exposure to the following risks from its use of financial instruments - credit risk; liquidity risk; market risk.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Assets and Liabilities (ALCO) and a Credit Committee which are responsible for developing and monitoring the Bank's risk management policies. The risk management policies are established to identify and analyse the risks faced by the Bank, 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. The Bank, through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors 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 Bank and its subsidiaries.

(A) Credit Risk

Credit risk is the risk of financial loss to the Group and the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. The Group's Credit Department reports to Management Credit Committee, which in turn reports to Board 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 the Credit Manager and the Managing Director. Larger facilities require approval by the Board Credit Committee or the Main Board as appropriate.

- Reviewing and assessing credit risk. Credit Committee 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 grading 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 five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews by 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 Board Credit Committee 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 Bank in the management of credit risk.

Concentrations of Assets, Liabilities and off Balance Sheet Items

Details of significant concentrations of the Group's assets, liabilities and off balance sheet items By industry groups are as detailed on the next page.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)
4 Financial Risk Management (Continued)

		2023 Sh '000	%	2022 Sh '000	%
(i)	Loans and advances - net				
	Agriculture	15,384	0.16%	4,554	0.07%
	Building and construction	324,458	3.31%	135,232	2.18%
	Wholesale and retail	2,843,560	28.97%	1,913,026	30.83%
	Real estate	1,392,471	14.19%	1,631,294	26.29%
	Social community and personal services	4,369,081	44.51%	2,274,857	36.66%
	Transport and communication	433,353	4.41%	170,302	2.74%
	Energy & water	2,645	0.03%	2,964	0.05%
	Financial services	435,183	4.43%	73,486	1.18%
		9,816,135	100%	6,205,715	100%
(ii)	Customer deposits				
	Private Enterprises	3,628,152	30%	2,155,034	23%
	Non-profit institutions and individuals	8,668,161	70%	7,361,373	77%
		12,296,313	100%	9,516,407	100%
(iii)	Off balance sheet items – (letters of credit and guarantees)				
	Building and construction	311,277	62%	227,325	62%
	Transport and communication	15,061	3%	12,680	3%
	Others	175,721	35%	127,522	35%
		502,059	100%	367,527	100%

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Maximum Exposure to Credit Risk Before Collateral Held

On-balance sheet	**2023 Sh' 000**	%	**2022 Sh' 000**	%
Cash and bank balances with Central Bank of Kenya	1,967,604	5.78%	1,019,517	2.93%
Government and other securities				
- At amortised cost	7,335,067	21.55%	7,583,296	21.80%
- At FVTOCI	13,624,718	40.02%	16,653,518	47.86%
Placements with other banks	794,976	2.34%	23,147	0.07%
Loans and advances to customers	9,816,135	28.84%	9,146,587	26.29%
	33,538,500	98.53%	34,426,065	98.94%
Off-balance sheet items:				
Guarantees and indemnities	502,059	1.47%	367,527	1.06%
	34,040,559	100.00%	34,793,592	100.00%
	========	======	========	======

The above table represents a worst-case scenario of credit risk exposure to the Group at 31 December 2023 and 31 December 2022, without taking account of any collateral held or other credit enhancements attached.

As shown above, 28.84% of the total maximum exposure is derived from loans and advances to customers (2022: 26.29%) and 61.57% represents investments in debt securities (2022: 69.66%)

Loans and advances to customers are secured by collateral in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The Bank does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and balances with Central Bank of Kenya.
- Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the Group has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks and financial institutions with high credit ratings.

The board assesses the credit quality of each related party, taking into account its financial position, past experience and other factors before getting into any credit transactions with them. The credit risk on related parties is minimal as their ultimate holding company is also one of main shareholders of the Bank who have huge financial capacities as demonstrated by the regular capital injection over the years.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

The following table sets out information about the credit quality and credit risk exposure of financial assets as at 31 December 2023. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For loan commitments the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities. Explanation of the terms 'Stage 1', 'Stage 2', 'Stage 3' and purchased originated credit impaired (POCI) assets is included in Note 4

Sh'000	Stage 1	2023 Stage 2	Stage 3	POCI	Total	2022 Total
Cash and balances with Central Bank of Kenya;						
Performing	1,971,468	-	-	-	1,971,468	1,022,625
	1,971,468	-	-	-	1,971,468	1,022,625
ECL (note 17(b))	(3,864)	-	-	-	(3,864)	(3,108)
Carrying amount	1,967,604	-	-	-	1,967,604	1,019,517
	=======	=======	=======	=======	=======	=======

In arriving at the ECL allowance for cash and balances with Central Bank of Kenya, the Bank and Group has adopted S&P and GRC rankings. The S&P ranking has assigned a risk/default rate of 0.00% for financial institutions rated AAA, 0.02% for AA rated, 0.07% A rated, 0.29% for BBB rated, 0.76% for BB rated, 2.93% for B rated and 15.79% for CCC/C rated financial institutions (Source 2023 Annual Global Corporate Default Study, Standard & Poor).

GCR has carried out a credit rating of Kenyan banks but has not assigned risk/default rates for the various ratings given. On the other hand, S&P has not done a rating specific to Kenyan financial institutions but has risk rates assigned to various ratings as documented above whose description we have reviewed and came up with the risk rates applicable to Kenyan banks.

A GCR rating of BBB (2022:AA) with a risk weight of 0.76% (2022:0.02%) has been assumed for cash and balances with Central Bank of Kenya given the very high credit quality ranking of the Central Bank of Kenya (CBK) and its associated inherently strong protection factors. Adverse changes in business, economic or financial conditions would increase the default risk although not significantly.

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Sh'000	Stage 1	2023 Stage 2	Stage 3	POCI	Total	2022 Total
Government securities;						
Performing	21,020,759	-	-	-	21,020,759	24,236,814
	21,020,759	-	-	-	21,020,759	24,236,814
ECL (note 17)	(60,974)	-	-	-	(60,974)	(70,807)
Carrying amount	20,959,785	-	-	-	20,959,785	24,166,007

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk. A GCR rating of BBB (2022: AA) with a risk weight of 0.29% (2022: 0.02%) has been assumed in arriving at the ECL given the very high credit quality ranking of the Central Bank of Kenya (CBK) and its associated inherently strong protection factors. Adverse changes in business, economic or financial conditions would increase the default risk although not significantly

Kingdom Bank Limited
Notes to the Financial Statements (Continued)
4 Financial Risk Management (Continued)

Sh'000	Stage 1	2023 Stage 2	Stage 3	POCI	Total	2022 Total
Deposits and balances due from banking institutions;						
Performing	816,483	-	-	-	816,483	23,846
	816,483	-	-	-	816,483	23,846
ECL (note 17)	(16,494)	-	-	-	(16,494)	(699)
Carrying amount	799,989	-	-	-	799,989	23,147

In the GCR rating, Kenyan financial institutions are described as consistently having a stable outlook which is equated to the S&P description of financial institutions rated B (2022: BB). Hence a default rate of 2.93% (2022: 0.76%) has been considered for deposits and balances due from banking institutions in arriving at the ECL allowance.

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Sh'000	Stage 1	2023 Stage 2	Stage 3	POCI	Total	2022 Total
Off-balance sheet items;						
Guarantees and indemnities Performing	513,362	-	-	-	513,362	367,527
	513,362	-	-	-	513,362	367,527
ECL (note 17)	(27,810)	-	-	-	(27,810)	(11,303)
Carrying amount	485,552	-	-	-	485,552	356,224

From history, the Bank has not incurred any loss from off balance sheet items hence they have been assessed as having a low credit risk. In arriving at the ECL allowance we have considered history and the likelihood of the commitments being called up.

Classification of Loans and Advances

Sh'000	Stage 1	2023 Stage 2	Stage 3	POCI	Total	2022 Total
Loans and advances to customers;						
Performing	7,842,489	-	-	-	7,842,489	4,076,806
Under performing	-	735,606	-	-	735,606	558,007
Non-performing	-	-	3,183,200	-	3,183,200	4,511,774
	7,842,489	735,606	3,183,200	-	11,761,295	9,146,587
ECL allowance (note 17)	(409,709)	(82,573)	(1,452,878)	-	(1,945,160)	(2,940,872)
Carrying amount	7,432,780	653,033	1,730,322	-	9,816,135	6,205,715

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

*The credit loss allowance for loans and advances to customers has been arrived at as detailed below:

	2023 Sh '000	2022 Sh '000
ECL allowance on loans and advances to customers		
at 01 January	2,940,872	3,639,464
Charge-through SOCI (note 17)	297,709	462,981
	3,238,581	4,102,445
Add; write offs:		
Recovery related	(1,067,381)	(690,045)
Financial assets derecognised-pay-offs	(226,040)	(471,528)
	(1,293,421)	(1,161,573)
ECL allowance on loans and advances to customers at 31 December	1,945,160	2,940,872
	=========	=========

Loans and Advances-Performing

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 programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a provision at 1% is made and appropriated from revenue reserves to statutory reserves.

Loans and Advances-Under-Performing

These are loans and advances where contractual interest or principal payments are past due by less than 90 days but the Bank believes that impairment is not appropriate based on the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a collective impairment allowance of 3% made to cover losses, which have been incurred but have not yet been identified.

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Classification of loans and advances

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

		2023			2022
Loans and advances to customers;	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Current	7,842,489	-	-	7,842,489	4,075,817
Overdue < 30 days	-	735,606	-	735,606	558,007
Overdue > 90 days	-	-	3,183,200	3,183,200	4,512,763
Total	**7,842,489**	**735,606**	**3,183,200**	**11,761,295**	**9,146,587**
	========	=======	========	========	========

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

Inputs, Assumptions and Techniques Used for Estimating Impairment

Significant increase in credit risk

The Group and the Bank in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group and the Bank's historical experience, expert credit assessment and forward-looking information.

The Group and Bank identifies a significant increase in credit risk where;

- exposures have a regulatory risk rating of 'watch';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 DPD rebuttable
- presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was nonperforming and is now regularised (subject to the regulatory cooling off period); or
- by comparing, where information is available, an exposures:
  a. credit risk quality at the date of reporting; with
  b.the credit risk quality on initial recognition of the exposure.

(a) Credit risk (Continued)

Management of credit risk (Continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Determining whether credit risk has increased significantly

The Group and Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group and Bank's internal credit risk management process.

The Group and Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 90 days in arrears. Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group and Bank may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation;
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Group and the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to

Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

Stage 3 - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to

Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Credit risk grades

The Group and Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The credit risk grades within the Bank are based on a probability of default. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to the nature and type of loans.

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

The Bank grades its loans into five categories on the basis of the following criteria:

Performing loans, being loans which are well documented and performing according to contractual terms. Such loans are considered under stage 1 - no significant increase in credit risk for purposes of the ECL calculation;

Watch loans, being loans whose principal or interest have remained un-paid for one day to thirty days or where one instalment is outstanding for less than 30 days. Such loans are also classified as stage 1 for purposes of the ECL calculation;

Substandard loan, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between thirty-one to one eighty days or where two to six instalments have remained outstanding. Under this category, loans past due between 31 - 90 days (or 2-3 pending instalments) are classified within in stage 2 – significant increase in credit risk for purposes of the ECL calculation. Loans aged beyond 90 days are classified as stage 3 - credit impaired;

Doubtful loans, being loans not adequately protected by the current repayment capacity and the principal or interest have remained un-paid between one hundred and eighty-one to three hundred and sixty days or where seven to twelve instalments have remained outstanding. Such loans are classified as stage 3 for purposes of the ECL calculation; and

Loss loans, being loans which are considered uncollectible or of such little value that their continued recognition as receivable assets is not warranted, not adequately protected and have remained un-paid for more than three hundred and sixty days or where more than twelve instalments have remained outstanding. Such loans are also classified as stage 3 for purposes if the ECL calculation.

Definition of default

The Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Group and the Bank to actions such as realising security (if any is held); or

- the borrower is more than 90 days past due on any material credit obligation to the Group and the Bank. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Under IFRS 9, the Group and Bank will incorporate forward-looking information in its measurement of ECLs.

The Group and the Bank applies linear regression to determine the forward-looking adjustment to incorporate in its ECL. The Group and the Bank formulates three economic scenarios: a base case, which is the median scenario assigned a probability of occurring based on the predictive strength of the relationship between the Group and Bank's default rate and the macro economic variables (MEV's), and two less likely scenarios, one upside and one downside, each assigned a probability of occurring based on half the difference between the Base case and 100%.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Kenya, supranational organisations such as the World Bank and the International Monetary Fund, and selected private- sector and academic forecasters.

The Bank has identified key drivers of credit risk and credit losses for its overall portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These are reviewed by management periodically to ascertain relevance based on management's understanding of the current industry environment.

The key drivers for credit risk are GDP in as much as it affects customers ability to pay their outstanding loan commitments, growth in commercial bank loans, exports of goods and services and inflation.

Modified financial assets

The contractual terms of loans and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loans and advances recognised as a new loans and advances at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

The Group and Bank renegotiates loans and advances with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Group and Bank's restructuring policy, loans and advances restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank Credit Committee regularly reviews reports on restructuring activities. Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of Default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD is adjusted to reflect forward- looking information as described above.

PD

Loan listings payment history and the borrower prudential guideline risk classifications from 2015 to date were used as the primary input in the determination of the PD structures.

PD estimates for loans and advances are estimates at a certain date, calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will are assessed at individual borrower level.

The PD estimates for other financial instruments assessed for impairment is based on external credit rating information obtained from reputable external rating agencies such as Moody's, Standard and Poors, Fitch and Global credit rating.

The PD estimates applied are probability weighted incorporating a forward-looking adjustment which is determined based on a base scenario, upside and downside scenario. Please see the section on forward-looking information.

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank will estimate LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties.

The LGD models will consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest rate (EIR) or a close proxy of the EIR.

Exposure at Default

EAD represents the expected exposure in the event of a default. The Group and the Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. For loan commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group and the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group and the Bank considers a longer period.

The maximum contractual period extends to the date at which the Group and the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For guarantee facilities, overdrafts and other revolving facilities that include both a drawn and an undrawn commitment component, the Group and the Bank will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Amount Arising From Ecl

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by Segment

2023 **Loans and advances to customers**	**Stage 1 12-month ECL Sh '000**	**Stage 2 Lifetime ECL Sh '000**	**Stage 3 Lifetime ECL Sh '000**	**Total Sh '000**
Loss allowance as at 1 January 2023	535,988	108,485	2,296,399	2,940,872
– Transfer to stage 1	12,163	(1,658)	(10,505)	-
– Transfer to stage 2	(21,126)	23,598	(2,472)	-
– Transfer to stage 3	(226,478)	(74,186)	300,664	-
New financial assets originated or purchased (POCI)	286,922	48,103	92,414	427,439
Financial assets that have been derecognized	(271,349)	(71,570)	(950,503)	(1,293,421)
Repayments effect and interest capitalization	(101,542)	(23,939)	(4,249)	(129,730)
Loss allowance as at 31 December 2023	409,709	82,573	1,452,878	1,945,160

2022 **Loans and advances to customers**	**Stage 1 12-month ECL Sh '000**	**Stage 2 Lifetime ECL Sh '000**	**Stage 3 Lifetime ECL Sh '000**	**Total Sh '000**
Loss allowance as at 1 January 2022	502,478	(115,991)	3,252,977	3,639,464
– Transfer to stage 1	3,670	(144)	(3,526)	-
– Transfer to stage 2	(7,831)	31,109	(23,278)	-
– Transfer to stage 3	(35,151)	(102,132)	137,283	-
New financial assets originated or purchased (POCI)	590,524	72,182	57,178	719,884
Financial assets that have been derecognized	-	-	(1,161,573)	(1,161,573)
Repayments effect and interest capitalization	(52,526)	(36,091)	(168,286)	(256,903)
Loss allowance as at 31 December 2022	535,988	108,485	2,296,399	2,940,872

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Amount Arising From Ecl (Continued)

Loss allowance (continued)

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	Loans		Overdrafts	
	2023 Sh'000	**2022 Sh'000**	**2023 Sh'000**	**2022 Sh'000**
Individually assessed impaired loans and Advances - retail	1,931,307	2,693,708	431,335	823,836
- corporate	559,620	831,299	287,611	162,931
	2,490,927	3,525,007	718,946	986,767
Discounted value of securities	4,046,604	3,767,613	1,211,252	545,486

	Loans and advances to customers	
31 December 2023	**Gross Sh'000**	**Net Sh'000**
Grade 5: Individually impaired	1,040,254	-
Grade 3 & 4: Individually impaired	2,169,619	1,493,883
	3,209,873	1,493,883
31 December 2022		
Grade 5: Individually impaired	1,653,265	1,162,817
Grade 3 & 4: Individually impaired	2,858,509	2,266,528
	4,511,774	3,429,345

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

(A) Credit Risk (Continued)

Management of Credit Risk (Continued)

Write-Off Policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when credit determines that the loans/ securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Collateral held

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over deposits and balances due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against government securities, and no such collateral was held at 31 December 2023 and 31 December 2022.

An estimate of the fair value of collateral and other security enhancements held against impaired financial assets is shown below:

Discounted value of securities held	**2023 Sh'000**	**2022 Sh'000**
For loans classified as:		
Neither past due nor impaired	7,428,359	3,027,888
Past due but not impaired	1,162,277	1,017,955
Impaired	5,257,856	4,313,099
	13,848,492	8,358,942
	==========	=========
Analysis of nature of collateral held:		
Past due but not impaired		
Property	4,550,491	935,180
Motor vehicle	1,054,513	12,974
Other	2,985,632	69,801
	8,590,636	1,017,955
	=========	========

Analysis of nature of collateral held: Impaired		
Property	3,135,542	2,135,213
Motor vehicle	127,230	134,358
Other	1,995,084	2,043,528
	5,257,856	4,313,099
	=========	=========

Kingdom Bank Limited
Financial Statements (Continued)

4 Financial Risk Management (Continued)

(B) Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Bank monitors liquidity ratios on a daily basis.

Liquidity risk based on undiscounted cash flows

Details of the reported bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2023	**2022**
At 31 December	161.99%	248.90%
Average for the period	202.80%	306.60%
Maximum for the period	244.29%	358.32%
Minimum for the period	158.80%	248.90%
Statutory minimum requirement	20%	20%
	=====	=====

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(B) Liquidity Risk (Continued)

The tables below represent cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities as at 31 December 2023 and 31 December 2022. The amounts disclosed in the table are the contractual undiscounted cash flows. All figures are in thousands of Kenya Shillings.

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 years	Total Sh'000
At 31 December 2023								
Customer deposits	7,182,287	2,696,845	910,586	1,459,715	46,880	-	-	12,296,313
Deposits and balances due to banking institutions	2,282,595	-	-	-	-	-	-	2,282,595
Medium term loan	1,786,132	-	-	-	-	107,457	-	1,893,589
Long term loan	-	-	-	-	-	-	17,965,714	17,965,714
Due to related parties	-	-	-	-	-	163	-	163
Total financial liabilities (contractual maturity dates)	11,251,014	2,696,845	910,586	1,459,715	46,880	107,620	17,965,714	34,438,374
Financial assets								
Cash and bank balances with Central Bank of Kenya	1,967,604	-	-	-	-	-	-	1,967,604
Government securities	-	-	1,500,000	-	300,000	3,509,833	15,649,952	20,959,785
Deposits and balances due from banking institutions	799,989	-	-	-	-	-	-	799,989
Loans and advances to customers	658,044	75,590	388,830	318,940	1,578,984	1,065,819	5,729,928	9,816,135
Total financial assets (expected maturity dates)	3,425,637	75,590	1,888,830	318,940	1,878,984	4,575,652	21,379,880	33,543,513
Net liquidity (surplus)/gap *	7,825,377	2,621,255	(978,244)	1,140,775	(1,832,104)	(4,468,032)	(3,414,166)	894,861
	=======	=======	========	=======	=======	=======	========	=======

* The mismatch in the categories under up to 1 month, 1-3 and 3-6 months is due to the assumption that all the deposits falling due within these periods will be withdrawn, which is highly unlikely.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(B) Liquidity Risk (Continued)

At 31 December 2022	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 years	Total Sh'000
Customer deposits	3,034,204	1,829,982	2,125,114	818,227	1,810,332	23,544	-	9,641,403
Deposits and balances due to banking institutions	1,795,486	-	-	-	-	-	-	1,795,486
Medium term loan	-	-	-	-	-	145,233	-	145,233
Long term loan	-	-	-	-	-	2,994,285	17,965,715	20,960,000
Due to related parties	-	-	-	-	162	-	-	162
Total financial liabilities (contractual maturity dates)	4,829,690	1,829,982	2,125,114	818,227	1,810,494	3,163,062	17,965,715	32,542,284
Financial assets								
Cash and bank balances with Central Bank of Kenya	1,019,517	-	-	-	-	-	-	1,019,517
Government securities	-	-	-	-	2,207,717	300,000	21,658,290	24,166,007
Deposits and balances due from banking institutions	23,147	-	-	-	-	-	-	23,147
Loans and advances to customers	2,152,537	28,433	55,002	208,291	182,188	821,722	2,757,542	6,205,715
Total financial assets (expected maturity dates)	3,195,201	28,433	55,002	208,291	2,389,905	1,121,722	24,415,832	31,414,386
Net liquidity (surplus)/gap *	1,634,489	1,801,549	2,070,112	609,936	(579,411)	2,041,340	(6,450,117)	1,127,898

* The mismatch in the categories under up to 1 month, 1-3 and 3-6 months is due to the assumption that all the deposits falling due within these periods will be withdrawn, which is highly unlikely.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(C) Market Risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing return on risk. Overall responsibility for managing market risk rests with the Board of Directors. The Managing Director is responsible for the development of detailed risk management policies (subject to review and approval by Board of Directors) and for the day-to-day implementation of those policies.

(i) Currency risk

The Group operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Group's currency risk is managed within the Central Bank of Kenya exposure guidelines of 20% of core capital.

The exchange rates used for translating the major foreign currency balances as at year end were as follows:

	2023 Sh	2022 Sh
US Dollar	156.50	123.37
GB Pound	200.00	148.47
Euro	171.40	131.27
	=====	=====

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2023 and 31 December 2022. Included in the table are the Group's financial instruments, categorized by currency.

At 31 December 2023	Kshs Sh'000	USD Sh'000	GBP Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
Financial Assets						
Cash and balances with Central Bank of Kenya	1,305,002	653,989	7,910	703	-	1,967,604
Government securities	20,959,785	-	-	-	-	20,959,785
Deposits and balances due from banking institutions	799,989	-	-	-	-	799,989
Loans and advances to customers	9,475,058	341,077	-	-	-	9,816,135
Total financial assets	32,539,834	995,066	7,910	703	-	33,543,513
Financial Liabilities						
Customers deposits	11,231,923	1,052,476	1,983	9,931	-	12,296,313
Deposits and balances due to banking institutions	2,282,585	-	-	-	-	2,282,585
Medium term loan	1,893,589	-	-	-	-	1,893,589
Long term loan	17,965,714	-	-	-	-	17,965,714
Total financial liabilities	33,373,811	1,052,476	1,983	9,931	-	34,438,201
Net foreign currency exposure	(833,977)	(57,410)	5,927	(9,228)	-	(894,688)
	========	======	=====	======	=====	========

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(C) Market Risk (Continued)

(i) Currency risk (continued)

At 31 December 2022	Kshs Sh'000	USD Sh'000	GBP Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
Financial Assets						
Cash and balances with Central Bank of Kenya	700,129	294,730	10,466	14,179	13	1,019,517
Government securities	24,166,007	-	-	-	-	24,166,007
Deposits and balances due from banking institutions	23,846	-	-	-	-	23,846
Loans and advances to customers	6,050,974	154,741	-	-	-	6,205,715
Total financial assets	30,940,956	449,471	10,466	14,179	13	31,415,085
Financial Liabilities						
Customers deposits	8,975,456	530,225	434	10,291	-	9,516,406
Deposits and balances due to banking institutions	1,743,653	-	-	-	-	1,743,653
Medium term loan	145,233	-	-	-	-	145,233
Long term loan	20,960,000	-	-	-	-	20,960,000
Total financial liabilities	31,824,342	530,225	434	10,291	-	32,365,292
Net foreign currency exposure	(883,386)	(80,754)	10,032	3,888	13	(950,207)
	========	======	=====	======	=======	=======

The Group does not have off-balance sheet items represented by the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

Foreign Currency Risk Stress Test

The table below summarizes the estimated impact of a 10% decline/appreciation of the Kenya Shilling against the three major currencies traded by the Group i.e. US Dollar, British Pound and Euro.

	2023 Shs'000	2022 Shs'000
10% depreciation of the Kenya Shilling	7,247	6,696
	======	=====
10% appreciation of the Kenya Shilling	(7,247)	(6,670)
	======	=====

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(C) Market Risk (Continued)

(ii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase because of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

At 31 December 2023

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing Years	Total
Financial Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,967,604	1,967,604
Government securities	-	-	1,500,000	19,459,785	-	20,959,785
Deposits and balances due from banking institutions	799,989	-	-	-	-	799,989
Loans and advances to customers	658,044	75,590	707,770	8,374,731	-	9,816,135
Total financial assets	1,458,033	75,590	2,207,770	27,834,516	1,967,604	33,543,513
Financial Liabilities						
Customers deposits	7,182,288	2,696,845	2,370,300	46,880	-	12,296,313
Deposits and balances due to banking institutions	2,282,595	-	-	-	-	2,282,595
Medium term loan	-	-	-	1,893,589	-	1,893,589
Long term loan	-	-	-	-	17,965,714	17,965,714
Total financial liabilities	9,464,883	2,696,845	2,370,300	1,940,469	17,965,714	34,438,211
Net gap	(8,006,850)	(2,621,255)	(162,530)	25,894,047	(15,998,110)	(894,698)

Kingdom Bank Limited
Notes to the Financial Statements (Continued)
4 Financial Risk Management (Continued)

(C) Market Risk (Continued)

(ii) Interest rate risk (Continued)

At 31 December 2022

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing Years	Total
Financial Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,019,517 1,019,517	
Government securities	-	2,207,717	300,000	21,658,290	-	24,166,007
Deposits and balances due from banking institutions	23,147	-	-	-	-	23,147
Loans and advances to customers	2,156,465	28,485	252,449	3,768,316	-	6,205,715
Total financial assets	2,179,612	2,236,202	552,449	25,426,606	1,019,517	31,414,386
Financial Liabilities						
Customers deposits	2,909,208	1,829,982	2,943,341	1,833,876	-	9,516,407
Deposits and balances due to banking institutions	-	-	-	-	1,743,653	1,743,653
Medium term loan	-	-	-	145,233	-	145,233
Long term loan	-	-	-	-	20,960,000	20,960,000
Total financial liabilities	2,909,208	1,829,982	2,943,341	1,979,109	22,703,653	32,365,293
Net gap	(729,596)	406,220	(2,390,892)	23,447,497	(21,684,136)	(950,907)
	=======	======	=======	=======	========	=======

hypothetical increase or decrease in interest rates of 10% applied at the beginning of the year would have on the profit for the year assuming a growing balance sheet and current interest rate risk profile would be as follows:

	2023 Sh'000	2022 Sh'000
10% increase in interest rates	(8,661)	(18,116)
	=======	=======
10% decrease in interest rates	8,661	18,116
	=======	=======

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(C) Market Risk (Continued)

(iii) Fair values of financial assets and liabilities
Financial instruments measured at fair value
Determination of fair value and fair values hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(i) The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Financial assets				
Government securities – FVTOCI				
investments (note 14)	13,624,718	-	-	13,624,718
Equity investments (note 22(a))	10,916	-	-	10,916
Land & buildings (note 19)	775,800	-	-	765,300
	14,411,434	-	-	14,400,934
	========	=======	=======	========
At 31 December 2022				
Financial Assets				
Government securities – FVTOCI				
investments (note 14)	16,653,518	-	-	16,653,518
Equity investments (note 22(a))	12,640	-	-	12,640
Land & buildings (note 19)	765,300	-	-	765,300
	17,431,458	-	-	17,431,458
	========	=======	=======	========

There were no transfers between levels 1, 2 and 3 during the year.
Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(C) Market Risk (Continued)

(iii) Fair values of financial assets and liabilities (Continued)
Financial instruments measured at fair value (Continued)
Determination of fair value and fair values hierarchy (Continued)

(ii) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.
Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table below provides information about how the fair values of these financial and non-financial assets and liabilities are determined (i.e. in particular, valuation techniques and inputs used).

Assets Liabilities	Fair values as at 31/12/2023 Sh'000	31/12/2022 Sh'000	Fair value hierarchy	Valuation techniques and key inputs
Government securities - at FVTOCI investments	13,624,718	16,653,518	Level 1	Quoted bid prices in an active manner.
Equity investments	10,916	12,640	Level 1	Quoted bid prices in an active manner.
Land & buildings	775,800	765,300	Level 1	Open market valuation
	=========	========	=========	=================

(i) Except as indicated above, the directors consider that the fair values of financial and non-financial assets and liabilities approximates their carrying amounts.

5. Capital Management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

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

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 required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to:

a) hold the minimum level of regulatory capital of Sh 1 billion;
b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%;
c) maintain core capital of not less than 10.5% of total deposit liabilities; and
d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

5. Capital Management (Continued)

The Bank had not met the minimum core capital requirement as at year-end.
The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to sustain future development of the business.

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses

There have been no material changes in the Bank's management of capital during the period. The Bank had met the minimum core capital requirement of Sh 1 billion as at 31 December 2023.

The table below summarises the composition of regulatory capital and ratios of the Bank as at 31 December:

	2023 Sh'000	2022 Sh'000
Tier 1 capital		
Share capital	1,867,947	1,867,947
Share premium	3,087,449	3,087,449
Accumulated losses	(1,496,645)	(2,151,804)
Less: Deferred tax asset	(129,511)	(351,903)
	3,329,240	2,451,689
Tier 2 capital		
Statutory credit risk reserve	-	-
Total regulatory capital	3,329,240	2,451,689
Risk-weighted assets		
On-balance sheet	11,659,826	7,336,348
Off-balance sheet	461,879	341,273
Total risk-weighted assets	12,121,705	7,677,621
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum – 14.5%)	19.8%	24.20%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum – 10.5%)	19.8%	24.20%

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

6 Interest Income	**Group**		**Bank**	
	2023	2022	2023	2022
	Sh'000	Sh'000	Sh'000	Sh'000
Loans and advances to customers	961,797	396,290	961,797	396,290
Deposits and balances due from banking institutions	72,977	20,838	72,977	20,838
Government securities – At FVTOCI	1,737,835	2,255,813	1,737,835	2,255,813
Government securities – At amortised cost	965,762	571,092	965,762	571,092
	3,738,371	3,244,033	3,738,371	3,244,033
	=======	=======	=======	=======

7 Interest Expense

Interest on customer deposits	924,814	575,462	924,814	575,462
Interest on borrowings	20,751	22,829	20,751	22,829
	945,565	598,291	945,565	598,291
	=======	=======	=======	=======

8 Fees And Commission Income

Loan related fees and commissions	153,919	84,855	153,919	84,855
Other fees and commissions	194,556	149,709	193,701	149,709
	348,475	234,564	347,620	234,564
	=======	=======	=======	=======
FOREIGN EXCHANGE GAINS	105,366	43,394	105,366	43,394
	=======	=======	=======	=======

Gains on foreign currency dealings arose from trading in foreign currency transactions and on the translation of foreign currency denominated assets and liabilities.

	Group		**Bank**	
	2023	**2022**	**2023**	**2022**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
9 Other Operating Income				
Other income	79,864	134,466	14,098	71,647
	=======	=======	=======	=======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

10. Operating Expenses				
Contributions to Deposit Protection Fund	13,435	11,618	13,435	11,618
Depreciation of property and equipment (note 19)	75,168	84,469	50,077	45,491
Amortisation of intangible assets (note 20)	15,347	26,446	15,347	26,446
Auditors' remuneration- current year	14,369	14,947	13,800	14,000
Staff costs (note 11)	562,334	430,908	552,297	423,737
Directors' emoluments - fees	10,486	8,787	10,486	8,787
- other emoluments	2,084	1,819	2,084	1,819
Travel, accommodation and entertainment	123,809	82,343	123,417	82,090
Telephone, postage, internet	23,527	21,527	23,527	21,527
Subscriptions	26,504	8,806	26,504	8,806
Legal and professional fees	170,209	22,998	170,137	22,998
Rent and rates	525	525	-	-
Repairs and maintenance	18,265	18,776	18,265	17,304
Licenses, permits and insurances	14,808	6,662	6,613	6,642
General office expenses	600,136	732,699	588,110	746,985
Advertising, marketing and publicity	148,509	117,254	148,101	117,243
Printing and stationery	13,274	9,018	13,274	9,018
Electricity and water	16,394	11,690	16,394	11,690
Security	39,428	37,316	39,428	37,316
Loss on disposal of property and equipment	-	21,176	-	3,789
Depreciation on right of use assets (note 23)	32,688	25,985	32,688	25,985
Interest on lease liabilities (note 29)	9,717	6,107	9,717	6,107
Fair value loss on equity investments (note 22 (a))	1,724	575	1,724	575
	1,932,740	1,702,451	1,875,425	1,649,973
	=======	=======	=======	=======

11. Staff Costs				
Salaries and wages	485,286	334,788	475,249	327,617
Pension costs – defined contribution plan	18,051	9,225	18,051	9,225
Medical costs	39,953	29,666	39,953	29,666
Other staff costs	19,044	57,229	19,044	57,229
	562,334	430,908	552,297	423,737
	=======	=======	=======	=======

The closing number of persons in employment during the year were:

	Group and Bank	
	2023	2022
Management	65	59
Supervisory	27	26
Clerical	240	251
Other categories	103	-
Total	435	336
	=======	=======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

	Group		Bank	
	2023	2022	2023	2022
	Sh'000	Sh'000	Sh'000	Sh'000
12. Taxation				
Taxation charge				
Current taxation charge	194,103	8,802	185,982	-
Deferred taxation (credit)/charge (note 21)	225,513	(133,167)	222,391	(126,396)
	419,616	(124,365)	408,373	(126,396)
	=======	=======	=======	=======
Reconciliation of tax charge/(credit) to the expected tax based on accounting loss				
Accounting profit before taxation	1,080,687	792,556	1,063,532	803,774
	=======	=======	=======	=======
Tax at the applicable rate of 30%	324,206	237,767	319,060	241,132
Tax effect of expenses not allowable for tax purposes	193,580	84,059	191,500	86,158
Tax effect of incomes not subject to tax	(321,971)	(283,957)	(321,971)	(291,452)
Tax losses adjusted	(165,727)	-	(165,727)	-
Deferred tax asset not recognised	-	(162,234)	-	(162,234)
Prior year under provision on b/f provisions	389,528		385,511	
	419,616	(124,365)	408,373	(126,396)
	=======	=======	=======	=======
Corporate taxation balance				
At beginning of the year	(6,076)	6,001	(109)	(109)
Charge for the year	194,103	8,804	185,982	-
Tax paid during the year	(10,902)	(20,881)	-	-
Tax payable/(receivable)	177,125	(6,076)	185,873	(109)
	=======	=======	=======	=======
Analysed as follows:				
Corporate tax recoverable	(16,978)	(6,076)	(109)	(109)
	=======	=======	=======	=======
Corporate tax payable	194,103	-	185,982	-
	=======	======	======	======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

13. Cash And Balances With Central Bank of Kenya

	Group		Bank	
	2023	**2022**	**2023**	**2022**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Cash on hand	736,735	333,065	736,735	333,065
Balances with Central Bank of Kenya:				
- Cash ratio requirement	522,702	409,760	522,702	409,760
- Other balances	712,031	279,676	712,031	279,676
	1,971,468	1,022,501	1,971,468	1,022,501
Less ECL allowance (note 4)	(3,864)	(2,984)	(3,864)	(2,984)
At 31 December	1,967,604	1,019,517	1,967,604	1,019,517
	=======	=======	=======	=======

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. These funds are not available to finance the day-to-day operations of the Bank. As at 31 December 2023 the cash ratio requirement in Kenya was 4.25% (2022 – 4.25%) of eligible deposits.

14. Government Securities – Group and Bank	**2023**	**2022**	**2023**	**2022**
	Sh'000	**Sh '000**	**Sh'000**	**Sh '000**
(a) **Treasury bonds**				
At amortised cost – maturing after 5 years)	7,396,041	7,583,296	7,396,041	7,583,296
At Fair value through other comprehensive income (FVTOCI)- Note (b)	13,624,718	16,653,518	13,624,718	16,653,518
	21,020,759	24,236,814	21,020,759	24,236,814
Less ECL allowance (note 4)	(60,974)	(70,807)	(60,974)	(70,807)
	20,959,785	24,166,007	20,959,785	24,166,007
	========	========	=========	========
(b) **Movement in treasury bonds FVTOCI is as follows:**				
At start of year	16,653,518	23,356,066	16,653,518	23,356,066
Additions		-		-
Disposal	(2,032,727)	(5,705,959)	(2,032,727)	(5,705,959)
Fair value loss	(996,073)	(996,589)	(996,073)	(996,589)
At end of year	13,624,718	16,653,518	13,624,718	16,653,518
	========	========	========	========

Treasury bonds are debt securities issued by the Government of Kenya and are classified as amortised cost and FVTOCI based on the investment's business model. The weighted average effective interest rate on treasury bonds at 31 December 2023 was 11.70% (2022 – 11.60%).

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

15. Deposits and Balances Due From Banking Institutions – Group and Bank

	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Balances due from banking institutions	310,123	17,882	310,123	17,882
Deposits due from banking institutions	516,361	16,265	506,361	5,964
	826,484	34,147	816,484	23,846
Less: ECL allowance (note 4)	(16,495)	(699)	(16,495)	(699)
	809,989	33,448	799,989	23,147

The above deposits mature within 3 months after year-end. The effective interest rate on deposits due from banking institutions at 31 December 2023 was 13.5.% (2022: 4.52%) and nil for balances due to banking institutions.

	2023 Sh '000	2022 Sh '000
16. Loans and Advances to Customers – Group and Bank		
Loans and advances to customers	11,493,611	8,997,162
Loans and advances to staff	267,684	149,425
	11,761,295	9,146,587
Less: allowance for ECL (note 17 (a))	(1,945,160)	(2,940,872)
At 31 December	9,816,135	6,205,715

Non-performing loans and advances to customers

The aggregate amount of gross non-performing loans and advances as at 31 December 2023 was Sh 8,579,542 (2022 - Sh 4,511,774,000).

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

16. Loans and Advances to Customers – Group and Bank (continued)

	2023 Sh '000	2022 Sh '000
Maturity of gross loans and advances		
Maturing:		
Within one year	1,441,404	2,432,959
One year to three years	1,578,984	182,188
Three years to five years	1,065,819	833,026
After five years	5,729,928	2,757,542
	9,816,135	6,205,715
Gross loans and advances to customers by type		
Overdrafts	375,532	736,942
Term loans	9,440,603	5,468,773
	9,816,135	6,205,715

The effective interest rate on loans and advances at 31 December 2023 was 16.48% (2022: 13.67%).
The related party transactions and balances are covered under note 35 and concentrations of gross advances to customers are covered under note 4.

17. Expected Credit Loss (Ecl) Recognised in Statement of Profit or Loss

(a) Loans and Advances to Customers Group & Bank

	Note	Stage 1 Sh'000	Stage 2 Sh'000	Stage 3 Sh'000	Total Sh'000
At 1 January 2022		37,302	143,561	3,458,600	3,639,463
Expected credit loss		463,747	(50,441)	49,676	462,982
Loans and advances derecognised		(133,338)	(20,999)	(1,007,236)	(1,161,573)
At 31 December 2022	4	367,711	72,121	2,501,040	2,940,872
At 1 January 2023		367,711	72,121	2,501,040	2,940,872
Expected credit loss		118,216	8,282	171,211	297,709
Loans and advances derecognised		(271,349)	(71,570)	(950,503)	(1,293,421)
At 31 December 2023	4	214,578	8,833	1,721,748	1,945,160

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

17. Expected Credit Loss (ECL) Recognised in Statement of Profit or Loss (Continued)

(b) Other Financial Assets-Group & Bank (Continued)

	Note	Cash and balances with Central Bank of Kenya	Government securities	Deposits and balances due from banking institutions	Guarantees and indemnities	Trade and other receivables	Total
At 1 January 2023		3,108	70,806	699	55,364	40,203	170,180
Performing		-	-	-	-	-	-
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	44,061
		3,108	70,806	699	55,364	40,203	170,180
ECL allowance;							
Performing		756	(9,832)	15,796	16,507	(7,849)	15,378
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	-
		-					
		756	(9,832)	15,796	16,507	(7,849)	15,378
At 31 December 2023							
Performing		3,864	60,974	16,495	71,871	32,354	185,558
Under performing		-	-	-	-	-	-
Non-performing		-	-	-	-	-	-
		3,864	60,974	16,495	71,871	32,354	185,558
		======	======	======	======	======	======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

17. Expected Credit Loss (Ecl) Recognised In Statement of Profit or Loss (Continued)

(c) Other Financial Assets-Bank

	Note	Cash and balances with Central Bank of Kenya **Sh '000**	Government securities **Sh '000**	Deposits and balances due from banking institutions **Sh '000**	Guarantees and indemnities **Sh '000**	**Total** **Sh '000**
At 1 January 2023;		3,108	70,806	699	55,364	129,977
Performing		-	-	-	-	-
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		3,108	70,806	699	55,364	129,977
ECL allowance;						
Performing		755	(9,833)	15,795	16,507	23,224
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		755	(9,833)	15,795	16,507	23,224
At 31 December 2023;						
Performing		3,863	60,973	16,494	71,871	153,201
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		3,863	60,973	16,494	71,871	153,201
		======	======	======	======	======
At 1 January 2022;	4	124	4,732	2,442	-	7,298
Performing		-	-	-	-	-
Under performing		-	-	-	-	-
Non-performing		-	-	-	44,061	44,061
		124	4,732	2,442	44,061	51,359
ECL allowance;						
Performing		2,984	66,074	(1,743)	11,303	78,618
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		2,984	66,074	(1,743)	11,303	78,618
At 31 December 2022;						
Performing		3,108	70,806	699	55,364	129,977
Under performing		-	-	-	-	-
Non-performing		-	-	-	-	-
		3,108	70,806	699	55,364	129,977
		======	======	======	======	======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

18. Other Assets

	Group		Bank	
	2023	2022	2023	2022
	Sh '000	Sh '000	Sh '000	Sh '000
Other receivables	1,298,246	1,440,185	946,1702	1,093,437
Prepayments and deposits	429,245	213,501	429,245	213,501
Legal deposits	2,914	2,914	2,914	2,914
	1,730,405	1,656,600	1,378,329	1,309,852
ECL allowance	(32,354)	(40,204)	-	-
	1,698,051	1,616,396	1,378,329	1,309,852
	=======	=======	=======	=======

19. Property and Equipment – Group

Cost	Land & Buildings Sh'000	Office partitions Sh'000	Furniture, fittings and equipment Sh'000	Motor vehicles Sh'000	*Work in progress Sh'000	Total Sh'000
At 1 January 2021	788,000	227,209	668,585	24,898	6,784	1,715,476
Additions	-	623	23,837	-	-	24,460
Disposals		(18,260)	(139,159)	-	-	(157,419)
Fair Value Adjustment	(22,700)	-	-	-	-	(22,700)
At 31 December 2021-as restated	765,300	209,572	553,263	24,898	6,784	1,450,860
	======	======	======	======	======	======
At 1 January 2022	765,300	209,572	553,263	24,898	6,784	1,450,860
Additions	-	65	79,813	-	66,347	146,225
Transfer to intangible	-	-	-	-	(6,784)	(6,784)
Disposal	-	-	(34,775)	(8,097)	-	(42,872)
At 31 December 2022	765,300	209,637	598,301	16,801	66,347	1,656,386
	======	======	======	======	======	======
At 1 January 2023	765,300	209,637	598,301	16,801	66,347	1,656,386
Additions	-	-	43,837	-	56,154	99,991
Fair Value Adjustment	10,500	-	-	-	-	10,500
At 31 December 2023	775,800	209,637	642,138	16,801	122,501	1,776,877
	======	======	======	======	======	======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

19. Property and Equipment – Group (Continued)

	Land & Buildings Sh'000	Office Partitions Sh'000	Furniture, Fittings And Equipment Sh'000	Motor Vehicles Sh'000	*Work In Progress Sh'000	Total Sh'000
DEPRECIATION						
At 1 January 2021	-	100,610	309,293	7,786	-	417,689
Charge for the year	-	25,229	61,374	4,293	-	90,896
Eliminated on disposal	-	(18,147)	(119,385)	-	-	(137,532)
Accelerated depreciation on operating lease assets	-	-	106,393	2,564	-	108,957
At 31 December 2021-as restated	-	107,692	357,675	14,643	-	480,010
	======	======	======	======	======	======
At 31 December 2021-as previously reported	-	107,692	251,282	12,079	-	371,053
Prior year adjustment	-	-	106,393	2,564	-	108,957
At 1 January 2022-as restated	-	107,692	357,675	14,643	-	480,010
Charge for the year	-	22,443	58,010	4,016	-	84,469
Eliminated on disposal	-	(17,389)	(4,308)	-	-	(21,697)
Accelerated depreciation on operating lease assets	-	-	17,335	1,418	-	18,753
At 31 December 2022	-	112,746	428,712	20,077	-	561,535
	======	======	======	======	======	======
At 1 January 2023	-	112,746	428,712	20,077	-	561,535
Charge for the year	-	21,201	52,954	1,014	-	75,168
Eliminated on disposal	-	-	-	-	-	-
At 31 December 2023	-	133,947	481,666	21,091	-	636,703
	======	======	======	======	======	======
NET BOOK VALUE						
At 31 December 2023	775,800	75,690	160,472	(4,290)	122,501	1,130,174
	======	======	======	======	======	======
At 31 December 2022-Restated	765,300	96,891	169,589	(3,277)	66,347	1,094,850
	======	======	======	======	======	======
At 31 December 2021-Restated	765,300	101,880	195,588	10,255	6,784	1,079,807
	======	======	======	======	======	======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

19. Property and Equipment – Bank

	Land & Building	Office Partitions Sh'000	Furniture, Fittings And Equipment Sh'000	Motor Vehicles Sh'000	Work In Progress Sh'000	Total Sh'000
COST s						
At 1 January 2022	765,300	236,363	181,400	8,097	6,784	1,197,944
Additions	-	65	79,813	-	66,347	146,225
Disposal	-	-	-	(8,097)	-	(8,097)
Transfer from work	-	-	-	-	(6,784)	(6,784)
Fair value adjustment	-	-	-	-	-	-
At 31 December 2022	765,300	236,428	261,213	-	66,347	1,329,288
At 1 January 2023	765,300	236,428	261,213	-	66,347	1,329,288
Additions	-	-	7,575	-	56,164	63,739
Fair value adjustment	10,500	-	-	-	-	10,500
At 31 December 2023	775,800	236,428	268,788	-	122,511	1,403,527

	Land & Building	Office Partitions Sh'000	Furniture, Fittings And Equipment Sh'000	Motor Vehicles Sh'000	Work In Progress Sh'000	Total Sh'000
Depreciation						
At 1 January 2022	-	107,692	107,700	3,802	-	219,194
Charge for the year	-	22,443	22,542	506	-	45,491
Eliminated on disposal	-	-	-	(4,308)	-	(4,308)
At 31 December 2022	-	130,135	130,242	-	-	260,377
At 1 January 2023	-	130,135	130,242	-	-	260,377
Charge for the year	-	21,201	28,876	-	-	50,077
At 31 December 2023	-	151,336	159,118	-	-	310,454
NET BOOK VALUE						
At 31 December 2023	775,800	85,092	109,670	-	122,511	1,093,073
At 31 December 2022	765,300	106,293	130,971	-	66,347	1,068,911

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

19. Property and Equipment – Bank (Continued)

The work in progress relates to ongoing digital banking platform development and branch relocation costs to be capitalised.

Land & buildings relates to the building situated on LR no. 1/859 along Arwings Kodhek road in Kilimani, Nairobi previously classified under investment property. The property was reclassified from investment property in 2022 following change in the business objective of holding the asset. The property was classified at its carrying value as at 31 December 2023.

The land and buildings was last revalued as at 31 December 2022 by Morgan Wright Limited, independent valuers on the basis of open market value for existing use for purposes of establishing the transfer cost from investment property.

Morgan Wright Limited are members of the Institute of Surveyors of Kenya and have appropriate qualifications and relevant and recent experience in fair value measurement of properties in the various locations in Kenya. Valuations were made on the basis of open market value for existing use and by reference to market evidence of recent transactions for similar properties.

The title of the property is freehold and is registered in the name of the Bank as absolute proprietors. It is encumbered through a legal charge to the Co-operative Bank of Kenya securing a mortgage facility as disclosed in note 28.

20. Intangible Assets – Group and Bank

COST	Sh '000
At 1 January 2022	415,018
Additions	14,627
Transfer from work in progress	6,784
At 31 December 2022	436,429
At 1 January 2023	436,429
Additions	21,651
At 31 December 2023	458,080
AMORTISATION	
At 1 January 2022	385,052
Charge for the year	26,446
At 31 December 2022	411,498
At 1 January 2023	411,498
Charge for the year	15,347
At 31 December 2023	426,845
NET BOOK VALUE	
At 31 December 2023	31,235
At 31 December 2022	24,931

The intangible assets relate to computer software.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

21. Deferred Tax Asset

	Group		Bank	
	2023 **Sh'000**	**2022** **Sh'000**	**2023** **Sh'000**	**2022** **Sh'000**
The net deferred tax asset is attributable to the following items:				
Accelerated capital allowances	77,221	101,295	88,095	92,653
Unrealized exchange losses	-	-	19,320	-
General provisions	(74,319)	(20,884)	(78,821)	(8,718)
Other provisions and temporary differences	-	(19,132)	(21,623)	(7,608)
Tax losses	3,297	(439,230)	-	(450,385)
Provision for impairment of financial assets	(629,508)	(921,255)	(629,508)	(921,255)
Deferred asset not recognized	493,028	943,411	493,028	943,411
Deferred tax asset-net	(130,281)	(355,795)	(129,509)	(351,902)
	========	========	========	========
Movement in deferred tax asset is as follows:				
At 1 January	(355,795)	(222,627)	(351,902)	(225,506)
(Credit)/charge to profit or loss (note 12(a))	225,514	(133,168)	222,393	(126,396)
At 31 December	(130,281)	(355,795)	(129,509)	(351,902)
	========	========	========	========

As at 31 December 2023, the Bank had accumulated tax losses amounting to nil (2022 – Sh 1,501,284,194) and available to be offset against future taxable profit.

	2023 **Sh'000**	**2022** **Sh'000**
22. Equity Investments - Group and Bank		
(a) Investment in quoted company – At fair value through profit and loss (FVTPL)	10,916	12,640
	=======	=======
Uchumi Supermarkets Limited		
At 1 January	12,640	13,215
Fair value loss (note 9)	(1,724)	(575)
At 31 December	10,916	12,640
	=======	=======

The investment in Uchumi Supermarkets Limited is held at fair value through profit or loss. The share price closed at Sh 0.19 as at 31 December 2023 (2022: Sh 0.22) and a revaluation loss of Sh 1,724,000 (2022: Sh 575,000) was recognized in the financial statements under operating expenses in note 10.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

22. Equity Investments- At fair value through profit or loss – Group and Bank (Continued)

Investment in subsidiaries at cost

	No. of shares	% Holding	2023 Sh'000	2022 Sh'000
Kingdom Bancassurance Intermediary Limited				
At 1 January	100,000	100%	5,039	139
Additions	4,900,00	100%	-	4,900
At 31 December	5,000,000	100%	5,039	5,039
Kingdom Leasing Limited				
At 1 January	1,000,000	100%	1,000	1,000
Additions	249,000,000	100%	249,000	-
At 31 December	250,000,000	100%	250,000	1,000
			255,039	6,039
			======	======

The subsidiaries are wholly owned Limited Liability Companies incorporated and domiciled in Kenya.

Kingdom Bancassurance Intermediary Limited was incorporated in 30 May 2015.The principal activity of the Bank is insurance agency business.

Kingdom Leasing Limited was incorporated in 30 September 2016.The principal activity of the Bank is leasing business.

During the year Kingdom Leasing Limited increased its share capital by issuing 24,900,000 new shares at par value Ksh 10.The shares were fully subscribed for by Kingdom Bank Limited.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

23. Right-of-Use Assets – Group & Bank

The Group leases office space and equipment for its use. Information about the leases in which the Group is a lessee is presented below:

	2023 Building Sh'000	2022 Building Sh'000
COST		
At 1 January	180,466	140,755
Additions	71,981	30,508
Escalation adjustment	1,357	9,203
Terminations	(2,030)	-
At 31 December	251,774	180,466
DEPRECIATION		
At 1 January	109,051	83,066
Charge for the year	32,688	25,985
At 31 December	141,739	109,051
NET BOOK VALUE		
At 31 December	110,035	71,415

Amounts Recognized in Profit or Loss:

	2023 Building Sh'000	2022 Building Sh'000
Depreciation expense on right-of-use assets	32,688	25,985
Interest expense on lease liabilities (note 31)	9,718	6,107
	42,406	32,092

All of the property and equipment leases in which the Group is the lessee contain only fixed payments.

The total cash outflow for leases amount to Sh 49.6 million (2022: Sh 40.2 million). There were no restrictions or covenants imposed by lessors

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

24. Customer Deposits - Group and Bank

Current and demand accounts	3,281,883	3,144,289	3,281,883	3,144,289
Savings accounts	428,270	270,190	428,270	270,190
Fixed deposit accounts	8,457,783	6,101,928	8,586,160	6,226,924
	12,167,936	9,516,407	12,296,313	9,641,403
	========	========	========	========
Maturity analysis of customer deposits				
Repayable:				
On demand	7,182,288	3,230,500	7,182,288	3,272,932
Within 90 days	4,985,648	6,285,907	5,114,025	6,368,471
	12,167,936	9,516,407	12,296,313	9,641,403
	========	========	========	========

The effective interest rate on interest bearing customer deposits at 31 December 2023 was 13% (2022 -9%). The related party transactions and balances are covered under note 34 and concentrations of customer deposits is covered under note 4 (a).

25. Deposits and Balances Due to Banking Institutions - Group and Bank

	2023	**2022**
	Sh '000	**Sh '000**
Balances due to banking institutions	2,282,595	1,743,653
	========	=======

The above balances are denominated in local currency and include overnight borrowing with the balance of Kes.1.2 billion being CBK LSF that is repayable half yearly over three years effective June 2024.

26. Medium Term Loans – Group and Bank

		2023	**2022**
		Sh '000	**Sh '000**
*	Co-operative Bank of Kenya Limited-Mortgage Facility	107,457	145,233
**	Co-operative Bank of Kenya Horizontal Reverse Transaction (HRT)-1Bn	886,132	-
***	Co-operative Bank of Kenya Horizontal Reverse Transaction (HRT)-900M	900,000	-
		1,786,132	-
		1,893,589	145,233
		========	========

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

The movement in borrowings is as follows:		
At 1 January	145,233	253,996
Addition	1,786,132	-
Loan repayment	(37,776)	(108,763)
At 31 December	1,893,589	145,233
	========	========
On demand or within one year	1,786,132*	-
Between 2 to 3 years	107,457	145,233
Over 3years		
	========	========

*Repayable by the securing government bonds.

26. Medium Term Loan – Group and Bank (Continued)

*The Co-operative Bank of Kenya Limited Mortgage facility is denominated in Kenya Shillings. Its effective interest rate is 13% per annum. and a tenor of 3 years 4 months (40 months). It is secured via legal charge over LR No: 1/859 as disclosed in note 19.

**The Co-operative Bank of Kenya Limited Horizontal Reverse Transaction (HRT)-1Bn facility is denominated in Kenya Shillings. Its effective interest rate is 12.85% per annum.and a tenor of 365 days. It is secured via legal charge over Government Security Issue number FXD2/2019/05 with a face value of Ksh 1.25Bn.

***The Co-operative Bank of Kenya Limited Horizontal Reverse Transaction (HRT)-900M facility is denominated in Kenya Shillings. Its effective interest rate is 16.75% per annum.and a tenor of 183 days. It is secured via legal charge over Government Security Issue number FXD3/2019/010 with a face value of Ksh 1.2Bn.

27. Long Term Loan – Group and Bank

	Fair value Sh '000	Deferred benefit Sh '000	Total Sh '000
At 1 January 2022	11,491,814	9,468,186	20,960,000
Interest expense	1,434,830	-	1,434,830
Amortisation of deferred benefit	-	(1,434,830)	(1,434,830)
At 31 December 2022	12,926,644	8,033,356	20,960,000
	========	========	========
At 1 January 2023	12,926,644	8,033,356	20,960,000
Interest expense	(1,697,803)	-	(1,697,803)
Amortisation of deferred benefit	-	1,697,803	1,697,803
Repayment	-	-	(2,994,286)
At 31 December 2023	11,228,841	9,731,159	17,965,714
	========	========	========

The above amount relates to liquidity support financing received from the Central Bank of Kenya (CBK) of Sh 20,960,000,000 in the year 2020 in exercise of its statutory mandate as regulator towards strengthening the liquidity position in a bid to turnaround the institution and stabilize the banking sector.

The facility has an effective interest rate of zero. It is repayable in seven (7) years quarterly from commencement of repayment, which started in March 2023. Management has assumed an effective interest rate of 12.87% (2022: 11.45%) in arriving at the fair value and deferred benefit

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

28. Other Liabilities

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
Bankers cheque liability	3,088	3,289	3,088	3,289
Sundry payables	602,155	369,441	506,194	276,609
	________	________	________	________
	605,243	372,730	509,282	279,898
	=======	=======	=======	======

29. Lease Liabilities

	Group & Bank	
	2023 Sh'000	2022 Sh'000
The movement in the lease liabilities is as follows:		
At 1 January	71,874	63,640
Additions	71,981	30,508
Payment of lease liabilities	(49,585)	(40,254)
Interest on lease liabilities	9,717	6,107
Escalation adjustment	6,124	11,873
	________	________
At 31 December	110,111	71,874
	=======	======
Amounts due for settlement within 12 months	44,611	40,198
Amounts due for settlement after 12 months	65,500	31,676
	________	________
	110,111	71,874
	=======	=======

The Group does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's treasury function. All lease obligations are denominated in Kenya Shillings.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

30. Share Capital – Group and Bank

	2023 Sh '000	2022 Sh'000
Authorised:		
224,153,541 Class A ordinary shares of Sh 1 each	224,154	224,154
46,200,000 Class B ordinary shares of Sh 66 each	3,049,200	3,049,200
	3,273,354	3,273,354
	========	========
Issued and fully paid:		
224,153,541 Class A ordinary shares of Sh 1 each	224,154	224,154
24,905,949 Class B ordinary shares of Sh 66 each	1,643,793	1,643,793
	1,867,947	1,867,947
	========	========

	No. of shares	Share capital Sh'000	Share premium Sh'000
Balance at 31 December 2023	249,059,490	1,867,947	3,087,449
	=========	=======	=======
Balance at 31 December 2022	249,059,490	1,867,947	3,087,449
	=========	=======	=======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

31. Notes to The Statement of Cash Flows - Group and Bank

			Group		Bank	
			2023	2022	2023	2022
			Sh'000	Sh'000	Sh'000	Sh'000
(a)	Reconciliation of loss before taxation to cash generated from/(used in) operations	Note				
	Profit before taxation		1,080,687	792,556	1,063,532	803,773
	Adjustment:					
	Depreciation of property and equipment	19	75,168	84,469	50,077	45,491
	Amortisation of intangible assets	20	15,347	26,446	15,347	26,446
	Depreciation expense on right-of-use assets	23	32,688	25,985	32,688	25,985
	Loss on disposal of property and equipment		-	21,176	-	3,789
	Fair value loss on equity investments	22 (a)	1,724	575	1,724	575
	Fair value gain on land and building	19	(10,500)	-	(10,500)	-
	Right of use assets escalation adjustment	23	(1,357)	(9,203)	(1,357)	(9,203)
	Right of use asset-terminations		2,030	-	2,030	-
	Lease liability escalation adjustment	29	6,124	11,873	6,124	11,873
	Interest on lease liability		9,717	6,107	9,717	6,107
			1,211,628	959,984	1,169,382	914,836
	Working capital changes;					
	Increase/(decrease) in loans and advances to customers		(3,610,420)	(1,773,175)	(3,610,420)	(1,773,175)
	Increase/(decrease) in other assets		(81,655)	(376,396)	(68,477)	(333,672)
	Increase in customer deposits		2,651,529	3,240,884	2,654,910	3,261,210
	Increase/(decrease)/ in other liabilities		232,513	(103,697)	229,384	(121,774)
	Net movement in related party balances		1	18	230,964	(26,089)
	Decrease in cash ratio requirement		(112,942)	(138,602)	(112,942)	(138,602)
	Net movement in Government securities		2,210,149	(1,511,974)	2,210,149	(1,511,974)
	Net cash generated from operations		2,500,803	297,042	2,702,950	270,760
			=======	========	========	========
(b)	Analysis of the balances of cash and cash equivalents					
	Cash on hand	13	736,735	333,065	736,735	333,065
	Balances with the Central Bank of Kenya		708,275	276,800	708,275	276,800
	Deposits and balances due from banking institutions	15	809,989	33,448	799,989	23,147
	Deposits and balances due to banking institutions	25	(2,282,595)	(1,743,653)	(2,282,595)	(1,743,653)
			(27,596)	(1,100,340)	(37,596)	(1,110,641)
			=======	========	========	========

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

31. Notes to The Statement of Cash Flows - Group and Bank (Continued)

	Group		Bank	
	2023 Sh'000	2022 Sh'000	2023 Sh'000	2022 Sh'000
(c) Analysis of increase in Government Securities				
Movement in Government Securities				
Non-cash flow items – revaluation of FVOCI:				
Treasury bonds (note 14(b))	(996,073)	(996,589)	(996,073)	(996,589)
Included in the cash flow statement	(996,073)	(996,589)	(996,073)	(996,589)

For the purposes of the cash flow statement, cash equivalents include short-term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months of the reporting date. Cash and cash equivalents excludes the cash ratio requirement balance held with the Central Bank of Kenya since these amounts were not readily available to finance the Bank's daily operations.

32. Investment Revaluation Reserve

The investment revaluation reserve represents the unrealized increase or decrease in the fair value of investments measured at fair value through other comprehensive income excluding impairment losses. The reserve is not distributable to the shareholders.

33. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

All transactions with related parties are at arm's length and in the normal course of business and on terms and conditions similar to those applicable to other customers. Details of related party balances and transactions are as follows.

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

33. Related Party Transactions (Continued)

	Group		Bank	
	2023	2022	2023	2022
	Sh '000	Sh '000	Sh '000	Sh '000
(a) **Loans and advances**				
At 1 January	-	-	-	-
Additions	9,300	-	9,300	-
Interest charged	479	-	479	-
Repayments	(922)	-	(922)	-
	8,857	-	8,857	-
	=======	=======	=======	=======
Staff loans and advances	267,683	149,424	267,683	149,424
	=======	=======	=======	=======
(a) **Due to related company**				
(i) Due to Jamii Bora Africa Limited				
At 1 January	144	144	144	144
Additions	19	18	19	18
Repayments		-	-	-
At 31 December	163	162	163	162
	=======	=======	=======	=======
(a) **Due to The Co-operative Bank of Kenya Limited**				
At 1 January		-		-
Additions (note 28)	145,233	178,960	145,233	178,960
Repayments	(37,776)	(33,727)	(37,776)	(33,727)
At 31 December	107,457	145,233	107,457	145,233
	=======	=======	=======	=======
(a) **Due from related companies**				
i) Kingdom Leasing Limited				
At 1 January	-	-	365,953	336,178
Additions	-	-	8,428	29,775
Equity conversion (Note 22 (b))	-	-	(249,000)	-
At 31 December	-	-	125,381	365,953

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

33. Related Party Transactions (Continued)

	Group		Bank	
	2023 Sh '000	2022 Sh '000	2023 Sh '000	2022 Sh '000
(a) **(c) Due from related companies (continued)**				
i) Kingdom Bancassurance Intermediary Limited				
At 1 January	-	-	32,757	37,425
Share subscription	-	-	-	(4,900)
Additions	-	-	10,609	232
At 31 December	-	-	43,366	32,757
Total	-	-	168,747	399,710
	========	========	========	========
ii) The Co-operative Bank of Kenya Limited-Bank balances				
At 1 January	13,812	46,628	13,812	46,628
Deposits	6,680,287	3,037,672	6,680,287	3,037,672
Withdrawals	(6,106,942)	(3,070,488)	(6,106,942)	(3,070,488)
	587,157	13,812	587,157	13,812
	========	========	========	=======

	Directors Sh'000	Companies associated to directors Sh'000	Total Sh'000
(a) **Deposits – Group and Bank**			
At 1 January 2022	1,658	-	1,658
Deposits	8,698	-	8,698
Interest paid	38	-	38
Withdrawals	(9,143)	-	(9,143)
Balance at 31 December 2022	1,251	-	1,251
	======	======	=======
At 1 January 2023	1,251	-	1,251
Deposits	20,048	25,762	45,810
Interest paid	73	33	106
Withdrawals	(17,513)	(25,747)	(43,261)
Balance at 31 December 2023	3,858	48	3,906
	======	======	=======

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

33. Related Party Transactions (Continued)

(a) Key management compensation – Group and Bank

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

	2023 Sh '000	2022 Sh '000
Salaries and other benefits	43,054	42,145
	======	======
Directors' remuneration		
Fees for services as directors	10,485	8,787
Other emoluments (included in key management compensation above)	-	-
	10,485	8,787
	======	======

34. Contingencies Including off Balance Sheet Items – Group and Bank

	2023 Sh '000	2022 Sh '000
(a) Collaterals and guarantees	502,059	367,527
	=======	======
(b) Litigation against the Bank	387,678	22,998
	=======	======

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

35. Prior Year Adjustment

The Group discovered that depreciation expenses on operating lease assets had been erroneously mismatched in its financial statements since 2016. As a consequence, depreciation expenses and the related assets have been overstated. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's consolidated financial statements.

At 31 December 2021	As previously reported Sh '000	Adjustment Sh '000	As restated Sh '000
Property and equipment	1,188,764	(108,957)	1,079,807
Accumulated losses	(3,652,000)	(108,957)	(3,760,957)
Total equity	2,004,110	(108,957)	1,895,153
	=========	=======	========
At 31 December 2022			
Property and equipment	1,222,561	(127,711)	1,094,850
Accumulated losses	(2,045,034)	(127,711)	(2,172,745)
Total equity	1,924,442	(127,711)	1,796,731
	=========	=======	========

Kingdom Bank Limited
Notes to the Financial Statements (Continued)

36. Assets Pledged as Securities

As at 31 December 2023 and 31 December 2022, except as disclosed under note 14, there were no other assets pledged by the Bank to secure liabilities and there were no secured bank liabilities.

37. Capital Commitments – Group and Bank

The Bank had no authorised capital commitments as at 31 December 2023 (2022 - nil).

38. Country of Incorporation

The Bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

39. Currency

These financial statements are presented in Kenya shillings thousand (Sh'000).

40. Non Financial Disclosures

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. It seeks to identify why a loss happened and at the broadest level includes the breakdown by four causes: people, processes, systems and external factors. The Bank has developed, implemented and maintains an enterprise wide Operational Risk Management Framework that is fully integrated into the Bank's overall risk management processes. This Framework for operational risk management is regularly reviewed by senior management and the Board to ensure all risks are covered. The operational framework consists of the following key components that are targeted to help manage the operational risk of the Bank and hence manage incidental risks therein:

(i). Board and Senior Management Oversight

The senior management is responsible for consistently implementing and maintaining policies, processes and systems for managing operational risk in all our material products, services and activities, consistent with the Bank's risk appetite and tolerance.

The board provides oversight on senior management's activities through the board audit and risk committee, which receives quarterly reports of the status of the operational risk facing the Bank. These reports are made by an independent risk function with a direct reporting to the board.

(ii). Policies & Procedures

The Bank has documented operational risk policies and procedures, which are aligned to the overall business strategy that clearly define the way all aspects of operational risk are managed. The support the continuous improvement of the risk management environment in the Bank. These policies are communicated to staff and signed off at least once in a year. They define the Bank's overall risk appetite, and are developed based on the requirements of regulatory authorities and input from the Board of Directors and senior Management. The policies also provide guidance to the business units by setting boundaries on the types and levels of risks the Bank is prepared to assume.

Guidelines

These are directives provided to implement policies and limits as set out above. They describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. Risk taking outside these guidelines has to be approved by senior Management of the Bank, or by the Board of Directors, depending on set approval limits

Processes & Standards

These are activities associated with identifying, evaluating, documenting, reporting and controlling risk. They define the breadth and quality of information required to make decisions and the expectation in terms of quality of analysis and presentation. At the operating level, these activities must be achieved before risk decisions are taken.

(iii) Measurement, Monitoring & Control

The Bank places a lot of emphasis in continuous identification and assessment of the various operational risks facing. This helps us to better understand our risk profile and effectively target risk management resources and strategies. In order to do so the Bank, through the risk management department has developed various measurement and reporting tools across products, activities and business units. Such tools include internal data loss collection and analysis, Risk self-assessments, business process mapping and scenario analysis. After measurement, the department monitors the various aspects of operational risk through event logs and escalates any red flags to senior management and if necessary the board for appropriate action. The Bank has rolled out a raft of internal controls and programmes, which provide reasonable assurance that we have efficient and effective operations, we safeguard our assets, and we produce reliable financial reports; and comply with applicable laws and regulations.

The Bank also conducts stress testing for a variety of short-term and protracted institution-specific and operational risks stress scenarios to identify sources of potential operational risks and to ensure that we are prepared to continue in business after minor and major operational risk events.

(iv) Independent Review

The Internal audit department and the external auditors independently monitor the effectiveness of the risk management programs and internal controls through periodic testing of the design and operations of processes related to identification, measurement or assessment, monitoring, controlling and

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reporting of risks. Additionally, the Bank's internal audit programs are derived from a risk based assessment to focus its audit assessment attention to risk areas of the business units deemed high on probability or impact.

41. Significant Events During and After the Reporting Date

Impact of Russia vs Ukraine and Israel vs Palestine wars

The impact of the on-going Israel-Palestine conflict and the Russia-Ukraine conflict on the Kenyan economy has been multifaceted:

(i) Trade Routes

Kenya's trade routes are experiencing disruptions due to global tensions caused by these conflicts. Disturbances in major shipping lanes especially along the red sea and the suez canal, influenced by geopolitical instability, has affected Kenya's imports and exports. For instance, if maritime routes through the Suez Canal are, have disrupted Kenya's trade flow, impacting the banking sector's financing of trade transactions.

(ii) Exchange Rates Volatility

Geopolitical tensions have affected the global currency markets, leading to fluctuations in exchange rates. Kenya's banking sector, especially those engaged in forex trading and cross-border transactions, have been impacted by significant shifts in exchange rates leading to uncertainty in global financial markets. It has also resulted in volatility in the Kenyan shilling's value against major currencies, affecting trade finance and investment decisions.

(iii) Commodity Prices

Global conflicts have influenced commodity prices, especially oil and gas, which are critical for the country's energy needs and transportation costs. Escalation in the Middle East and Eastern Europe has lead to spikes in oil prices, affecting Kenya's inflation rate and trade balance. Banks have had to adjust their lending rates and risk assessments accordingly.

(iv) Diaspora Remittances and Inflows

Whereas the country relies significantly on remittances from its diaspora community, particularly from regions such as the Middle East and Europe. Conflicts in these regions has disrupted remittance flows, affecting household incomes and consumption patterns. This, in turn, has impacted the banking sector's deposit base and loan repayment capacity for households and businesses leading to higher rates of delinquency in the Banking sector.

Despite the trickle-down effects of the ongoing wars to the Kenyan economy, the bank has not for now experienced negative impact on the quality of the loan book by way of affected customers seeking deferrals on payments thereby creating room for SICR to occur. That said, the bank will keep conducting stress tests on its loan book to ascertain whether there's correlation between quality of its book and the ongoing war, in which case necessary corrective measures will be put in place as may behove from time to time.

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