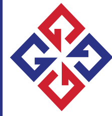

Guardian BANK

Your Preferred Bank

2022 ANNUAL REPORT

www.guardian-bank.com

Guardian Bank Limited is Regulated By The Central Bank of Kenya

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Chairman's Report

I am pleased to present the Annual Report and the financial statements of Guardian Bank Limited for the financial year ending 31st December 2022.

The Banking Industry faced unprecedented challenges during the financial year 2020 and 2021 due to COVID-19 PANDEMIC. It was expected that the economy will improve during the financial year 2022 with considerable reduction in the number of people who have suffered due to the pandemic. The recovery process of the economy took more time than projected due to several factors one of which was the election year, when investors historically take a 'wait and watch' position. This had also impacted the repayment capacity of the borrowers leading to increased non-performing assets in the Banking Industry.

The performance of the Bank during the financial year ending December 2022 was satisfactory inspite of the various challenges faced by the industry. The Bank adopted a very robust Business development / marketing strategy during the year.

The customer deposits of the Bank stood at Kshs. 11.875 bn. as at 31-12-2022. The Bank has been very selective in marketing fixed deposits with a view to reduce the cost of funds and concentrated on increasing the customer base and low cost deposits. The Bank has been successful in achieving this strategy.

The net advances of the Bank as at 31st December 2022 stood at Kshs. 6.376 bn. as against Kshs. 6.953 bn. during the previous year. The Bank has been very selective in taking up new advances because of the economic strains faced by the country and also increased level of non-performing advances portfolio in the industry.

The Bank has been able to show improved level of profitability. The pre-tax profit of the Bank as at 31-12-2022 stood at Kshs. 272.387 mn. and profit after tax of Kshs. 249.809 mn. as against Kshs. 155.033 mn. in the previous year. The Shareholders have not been drawing dividens since the inception of the Bank. It has been agreed that no dividend will be declared for the year under reference and the net profit has been ploughed back. The total Shareholders' funds stood at Kshs. 3.238 bn. as at 31-12-2022 as against the statutory requirement of Kshs. 1.000 bn.

The liquidity ratio of the Bank has been maintained at a high level over the years. The liquidity ratio of the Bank stood at 67.7% as at 31-12-2022 as against the statutory requirement of 20.00%. The total capital/ total risk weighted assets ratio stood at 29.1% as at 31-12-2022 as against the statutory requirement of 14.5%. The surplus funds held by the Bank were invested in overnight inter-bank lending, Government Bonds and Bills. The Bank has been strictly adhering to the guidelines of the Central Bank of Kenya including on the statutory ratios.

The gross-non-performing assets of the Bank stood at Kshs. 1.208 bn. as at 31-12-2022. The Bank has been making provisions strictly as per the prudential guidelines and the net non-performing assets as at the same date stood at Kshs. 566.599 mn. These exposures are fully covered by tangible securities and the Bank has initiated appropriate recovery proceedings.

The Board of the Bank consists of 8 members of which one is an Executive Director, two are Non-Executive Directors and five are Independent Non-Executive Directors. The composition of the board is in line with the statutory guidelines. The Board has put in place a strong corporate governance structure and various policy documents as required under the prudential guidelines. The Board has also constituted various Board Member Committees and Management Committees. The Board Member Committees are chaired by Independent Non-Executive Directors. Meetings of the Board of Directors and the Board Committees are held regularly and the minutes of Board Committees are placed before the Board for information. The Bank is fully compliant in regard to the various statutory requirements and the board approved policy documents.

The day to day affairs of the Bank is managed by seasoned bankers fully committed to the Bank under the dynamic leadership of the Executive Director Mr. Hetul Chandaria. Management has put in place working manuals / policy documents which are strictly adhered to by the staff working at Head Office and Branches. Customer Service Committees formed at all the branches periodically meet and discuss the customer service at the branches and the means to improve the service extended to the customers. Such meetings are also attended by the customers on invitation.

The Board Members have been actively participating in the board meetings and committee meetings and extended their valuable guidance/suggestions to the management for improving the performance of the Bank. I sincerely thank the Board Members for their contribution.

Guardian Bank had a good year in 2022 and I sincerely thank all our customers for their loyalty and support. I assure them of the best services.

Messrs. PricewaterhouseCoopers LLP (PwC), are the statutory auditors of the Bank. I thank the officials of PwC for completing the annual audit well in time and also for the valuable suggestions.

On behalf of the Board Members, the Management of the Bank and myself, I sincerely thank the Governor of Central Bank of Kenya, Deputy Governor of Central Bank of Kenya, officials of Bank Supervision at Central Bank of Kenya, the Ministry of Finance and other statutory authorities for their co-operation and guidance from time to time.

The ‘Guardian Family’ consists of a dedicated and loyal team - majority of the staff members have been associated with the Bank for over a decade. I sincerely thank each and every member of the team for their dedication, team-work and best service extended to our valuable customers and well-wishers and urge them to continue to strive hard and enhance the brand image of Guardian Bank.

With warm regards,
Vasant K. Shetty.

CORPORATE INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

DIRECTORS AND SENIOR MANAGEMENT

Chairman	Mr. Vasant K. Shetty
Executive Director	Mr. Hetul Chandaria
Non-Executive Director	Mr. Bhavnish Chandaria
Independent Non-Executive Director	Mr. Raj Sahi
Independent Non-Executive Director	Dr. Shantilal Shah
Independent Non-Executive Director	Mr. Ajay Shah
Independent Non-Executive Director	Dr. Samson Ndegwa
Independent Non-Executive Director	Brig (Rtd.) Wilson A. C. Boinett
Chief Executive Officer	Mr. Narayanamurthi Sabesan
General Manager	Mr. K.R. Sahasranaman
Deputy General Manager	Ms. Lorraine C. Miranda

REGISTERED OFFICE/ HEAD OFFICE
Guardian Centre
Biashara Street
P. O. Box 67437 – 00200
Nairobi, Kenya

LAWYERS
Mutua Waweru & Co Advocates
Ochieng', Onyango, Kibet & Ohaga Advocates
LG Menezes Advocates
Oyatta & Associates Advocates
Kabiru & Company Advocates
Nyairo and Company, Advocates

BANKER
Central Bank of Kenya
Haile Selassie Avenue
P. O. BOX 60000 – 00200
Nairobi, Kenya

AUDITOR
PricewaterhouseCoopers LLP
Certified Public Accountants
PWC Tower, Waiyaki Way/Chiromo Road
P. O. Box 43963 – 00100
Nairobi, Kenya

SECRETARY
Jophece Yogo
P. O. Box 69952 – 00400
Nairobi

CORRESPONDENT BANKS
Crown Agents Bank (UK)
DCB Bank, Mumbai (India)
Standard Bank of South Africa Ltd
Bank of China – South Africa
HDFC Bank Ltd, (India)
Bank of India, Nairobi
KCB Bank Kenya Ltd, Nairobi

BRANCHES

Biashara Street
Guardian Centre
P. O. Box 67437 – 00200
Nairobi

Westlands Branch
Brick Court House, Mpaka Rd.
P. O. Box 66568 – 00800
Nairobi

Mombasa Road Branch
Tulip House
P. O. Box 42060 – 00100
Nairobi

Mombasa Branch
Oriental Building, Nkurumah Rd.
P. O. Box 40619 – 80100
Mombasa

Ngong Road Branch
The Green House
P. O. Box 9822 – 00200
Nairobi

Nyali Branch
Links Plaza
P. O. Box 34375 – 80118
Nyali

Nakuru Branch
Parana House, Kenyatta Avenue
P. O. Box 18633–20100
Nakuru

Eldoret Branch
Beharilal House, Uganda Road
P. O. Box 7685 – 30100
Eldoret

Kisumu Branch
Amalo Plaza, Oginga Odinga Rd.,
Central Square
P. O. Box 2816 – 40100
Kisumu

STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2022

Board/Management Committees

Tabulated below are Board/Management Committees, their composition and membership, functions and the frequency of meetings.

	Credit Committee	Audit Committee	Risk Management Committee	Strategy Committee	Human Resource Committee	Asset & Liabilities Management Committee (ALCO)	Business Continuity Management (BCM)
Composition	Non-Executive Directors, Executive Director	Non-Executive Directors	Non-Executive Directors, Executive Director	Executive Director, Chief Executive Officer, Senior Management	Executive Director, Chief Executive Officer, Senior Management	Executive Director, Chief Executive Officer & Senior Management	Senior Management
Chairman	Dr. Shantilal R. Shah	Dr. Samson Ndegwa	Mr. Raj Sahi	Mr. Hetul D. Chandaria	Mr. N. Sabesan	Mr. Hetul D. Chandaria	Mr. K R. Sahasranaman
Members	Mr. Vasant K. Shetty Mr. Hetul D. Chandaria Mr. Ajay Shah	Dr. Shantilal R. Shah, Mr. Raj Sahi, Mr. Bhavnish Chandaria, Brig (Rtd) Wilson A.C. Boinett	Brig. (Rtd) Wilson A. C.Boinett Mr. Vasant K. Shetty Mr. Hetul Chandaria Mr. Bhavnish Chandaria	Mr. N. Sabesan Mr. K R. Sahasranaman Ms. Lorraine Miranda Mr. John Fernandes Mr. Dipan Shah Mr. Joseph Wachira Mr. Joseph Ngure Ms. Lily Muriuki Ms. Zohreen Jeraj	Mr. Hetul Chandaria Mr. Joseph Wachira Mr. K.R. Sahasranaman Ms. Lorraine Miranda	Mr. N. Sabesan Mr. K R. Sahasranaman Ms. Lorraine Miranda Mr. Dipan Shah Mr. K. Solanki Mr. J Ngure	Ms. Lorraine Miranda Mr. Dipan Shah Mr. Joseph Wachira Ms. Grace Nyende Mr. Geoffrey Korir
Main Functions	Review and oversee the lending policy of the Group and Bank, sanctioning new/review credit proposals within the delegated authority, evaluate / review Group's and Bank's risk under Credit Risk Management.	To ensure that the financial statements are prepared in a timely and accurate manner, review internal controls, review the management report of external auditors, comply with CBK inspection report, approve annual audit plan, and review internal audit report.	- Review/ Implementation of Risk Management Framework - Review/Monitor and deliberation on risk mitigation approach. - Enhance overall risk awareness and control.	Drawing short term/long term business strategy of the Group and Bank, preparation of annual business budget, monitoring the performance of the branches vis-à-vis the target, marketing/ publicity and branch expansions.	Selection / recruitment, promotions, performance review, disciplinary issues, staff training, staff welfare and preparation/ updating of HR Policy of the Group and Bank.	Compliance with the legal and regulatory requirements, monitoring the liquidity of the Group and Bank, take investment decision, fix interest rates on deposit/ bank's lending rate, evaluate / review liquidity risk management, interest rate risk management and price risk management.	- Protecting the interest of stake holders and meeting CBK compliance/legal requirements, - Developing disaster mitigation and resumption strategies for various business process, - Allocate resources for Disaster Recovery centre - Creating awareness amongst staff about the disaster recover management - Facilitating creation and updating of Business Continuity Policy.
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Monthly	Quarterly

Meetings of the Board of Directors and Committees during the year ended 31 December 2022

Board of Directors Meetings in 2022

The Board of Directors held four ordinary meetings in 2022.

Director	24.03.2022	23.06.2022	22.09.2022	04.11.2022
Mr. Vasant K Shetty	√	√	√	√
Mr. Hetul D. Chandaria	√	√	√	√
Mr. Bhavnish Chandaria	√	√	√	√
Mr. Rajeshwar Sahi	√	√	√	√
Mr. Shantilal R. Shah	√	√	√	√
Dr. Samson Ndegwa	√	√	√	√
Mr. Ajay Shah	√	√	√	√
Brig. (Rtd) Wilson A.C.Boinett	√	√	√	√

Board Audit Committee Meetings in 2022

The Board Audit Committee held four meetings in 2022

Director	28.02.2022	17.06.2022	19.09.2022	31.10.2022
Dr. Samson Ndegwa	√	√	√	√
Mr. Bhavnish Chandaria	X	X	X	X
Mr. Rajeshwar Sahi	√	√	√	√
Mr. Shantilal R. Shah	X	√	√	√
Brig. (Rtd) Wilson A.C.Boinett	√	√	√	√

Board Risk Management Committee Meetings in 2022

The Board Risk and Compliance Committee held four meetings in 2022

Director	01.03.2022	14.06.2022	12.09.2022	18.10.2022
Mr. Rajeshwar Sahi	√	√	√	√
Mr. Vasant K Shetty	√	√	√	√
Mr. Hetul D. Chandaria	√	√	√	√
Mr. Bhavnish Chandaria	X	√	X	X
Brig. (Rtd) Wilson A.C.Boinett	√	√	√	√

Board Credit Committee Meetings in 2022

The Board Credit Committee held four meetings in 2022

Director	15.03.2022	15.06.2022	14.09.2022	16.12.2022
Mr. Shantilal R. Shah	√	√	√	√
Mr. Ajay Shah	√	√	√	√
Mr. Vasant K Shetty	√	√	√	√
Mr. Hetul D. Chandaria	X	√	√	√

√ Attended Meeting **x Absent from meeting with apology**

DIRECTOR’S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022

The directors submit their report together with the audited financial statements of Guardian Bank Limited (the "Bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Group is engaged in the business of banking and the provision of related services and is licensed under the Banking Act.

The Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers that are both interest bearing and non-interest bearing, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets while maintaining sufficient liquidity to meet all claims that fall due.

RESULTS AND RECOMMENDED DIVIDEND

Profit for the year of Shs 249,809,000 (2021: Shs 155,033,000) has been added to retained earnings. The directors do not recommend the payment of dividend for the year ended 31 December 2022 (2021: Nil).

BUSINESS REVIEW

In the current economic climate, capital conservation is regarded as paramount to the Group's sustainability over the short to medium term. The Central Bank of Kenya has encouraged the boards of directors of Group to ensure that capital conservation takes priority over any distributions of dividends on ordinary shares. As a result of guidance from the Central Bank of Kenya and the Board's view as to the need for capital conservation and the appropriate management of capital at this time.

Interest income on government securities increased by 13% from Shs 533 million in 2021 to Shs 604 million in 2022. There was a drop of 10% in interest income from loans and advances, from Shs 1.082 million in 2021 to Shs 978 million in 2022. Interest expense dropped by 6% on account of Group strategy to grow its low-cost deposit volumes in order to counter the drop in reduction of interest income from its loans and advances.

Net loans and advances decreased by 8% to Shs 6.4 billion in 2022 from Shs 6.9 billion in 2021. This is attributable to repayments and recoveries of loans and advances. Provision for impairment of loans and advances decreased to Shs 424 million in 2022 from Shs 712 million in 2021 as a result of repayments of loans and advances during the year 2022 and write off of non-performing loans and advances.
Gross non-performing loans and advances decreased by 4% to Shs 1.208 billion from Shs 1.257 billion in the previous year.

Customer deposits stood at Shs 11.8 billion in 2022 representing a decrease of 17% from previous year's Shs 14.3 billion. Total assets and liabilities decreased by 12% to Shs 15.7 billion from previous year Shs 17.7 billion, which was driven by decrease in deposits by Shs 2.5 billion.

PRINCIPAL RISK AND UNCERTAINTIES

The Group's principal risk and uncertainties together with processes that are in place to monitor and mitigate those risks where possible can be found under the note 4 to the financial statement.

CLIMATE CHANGE

There has been increase in interest in relation to the risks posed by climate change. In light of this and in response to the risks posed, Guardian Bank Limited has embedded the management and monitoring of climate related financial risks in its management framework, and this will be included in our business strategy and operations.

DIRECTORS

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

Mr. Vasant K Shetty	Non-Executive Director - Chairman
Mr. Hetul D. Chandaria	Executive Director
Mr. Bhavnish Chandaria	Non-Executive Director
Mr. Rajeshwar Sahi*	Independent Non-Executive Director
Mr. Shantilal R. Shah	Independent Non-Executive Director
Dr. Samson Ndegwa	Independent Non-Executive Director
Mr. Ajay Shah	Independent Non-Executive Director
Brig. (Rtd) Wilson A.C.Boinett	Independent Non-Executive Director
Mr. N. Sabesan	Chief Executive Officer

* British

In line with Central Bank of Kenya Prudential Guidelines, all directors attended 100% of main board meetings. Evaluation of the directors was through peer and self-evaluation.

STATEMENT AS TO THE DISCLOSURE TO THE GROUP'S AUDITOR

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

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP continue in office in accordance with company's articles of association and section 719 (2) of the Companies' Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By order of the Board

Secretary

7th March ______________________2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

Having made an assessment of the ability of the Group and Bank 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 use of going concern basis for preparation of these financial statements.

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

Approved by the Board of Directors on 7th March 2023 and signed on its behalf by:

______________________	______________________
Shantilal R Shah	Hetul D Chandaria
Director	Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUARDIAN BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Guardian Bank Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 12 to 85 which comprise the consolidated statement of financial position at 31 December 2022, and the consolidated statement of profit or loss, and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Bank statement of profit or loss and other comprehensive income, Bank statement of financial position at 31 December 2022, the statement of changes in equity and statement of cash flows for the Bank for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Guardian Bank Limited give a true and fair view of the financial position of the Group and the Bank at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001   www.pwc.com/ke

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

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

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

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

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

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

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

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

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

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

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

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on page 6 to 7 is consistent with the financial statements.

CPA Brian Ngunjiri, Practicing Number 2451
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

27th March **2023**

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Consolidated and bank statement of profit or loss and other comprehensive income

	Notes	2022 Shs'000	2021 Shs'000
Interest income	5(a)	1,615,434	1,630,448
Interest expense	5(b)	(727,185)	(773,889)
Net interest income		**888,249**	**856,559**
Fee and commission income	6	41,715	39,809
Foreign exchange income	7	102,257	32,936
Other income	8	6,990	31,382
Credit impairment losses	16	(112,621)	(167,073)
Net operating income / (expense)		**38,341**	**(62,946)**
Other operating expenses	9	(654,203)	(658,347)
Profit before income tax		**272,387**	**135,266**
Income tax (charge) / credit	10	(22,578)	19,767
Profit for the year		**249,809**	**155,033**
Other comprehensive income		-	-
Total comprehensive income for the year		**249,809**	**155,033**

Consolidated statement of financial position

	Notes	2022 Shs'000	2021 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,385,476	2,572,400
Government securities at amortised cost	13	5,564,378	6,804,629
Deposits and balances due from financial institutions	14	1,139,788	451,889
Loans and advances to customers	16	6,376,480	6,953,431
Property and equipment	18	49,434	52,017
Right-of-use assets	19	452,260	435,875
Intangible assets	20	29,285	31,807
Tax recoverable	10	22,956	47,013
Other assets and prepayments	15	340,022	152,647
Deferred income tax	17	273,990	234,692
Total assets		**15,634,069**	**17,736,400**
LIABILITIES			
Deposits from customers	22	11,875,847	14,347,923
Other liabilities and accrued expenses	23	211,220	126,719
Lease liabilities	24	308,143	272,708
Total liabilities		**12,395,210**	**14,747,350**
SHAREHOLDERS' EQUITY			
Share capital	25	450,375	450,375
Regulatory reserve	26	277,420	233,686
Retained earnings		2,511,064	2,304,989
Total shareholders' equity		**3,238,859**	**2,989,050**
Total equity and liabilities		**15,634,069**	**17,736,400**

The financial statements on pages 21 to 77 were approved for issue by the board of directors on 7th March 2023 and signed on its behalf by:

____
Shantilal R Shah
Director

____
Hetul D Chandaria
Director

Bank statement of financial position

	Notes	2022 Shs'000	2021 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,385,476	2,572,400
Government securities at amortised cost	13	5,564,378	6,804,629
Deposits and balances due from banking institutions	14	1,139,788	451,889
Loans and advances to customers	16	6,376,480	6,953,431
Investment in subsidiaries	21	300,375	300,375
Property and equipment	18	49,433	52,017
Right-of-use assets	19	452,261	435,875
Intangible assets	20	29,285	31,807
Tax recoverable	10	22,956	47,013
Other assets and prepayments	15	340,022	152,647
Deferred income tax	17	273,990	234,692
Total assets		**15,934,444**	**18,036,775**
LIABILITIES			
Deposits from customers	22	11,875,847	14,347,923
Balances due to related parties	21	364,792	364,792
Other liabilities and accrued expenses	23	211,220	126,719
Lease liabilities	24	308,143	272,708
Total liabilities		**12,760,002**	**15,112,142**
SHAREHOLDERS' EQUITY			
Share capital	25	450,375	450,375
Regulatory reserve	26	277,420	233,686
Retained earnings		2,446,647	2,240,572
Total shareholders' equity		**3,174,442**	**2,924,633**
Total equity and liabilities		**15,934,444**	**18,036,775**

The financial statements on pages 21 to 77 were approved for issue by the board of directors on 7th March 2023 and signed on its behalf by:

Shantilal R Shah
Director

Hetul D Chandaria
Director

Consolidated statement of changes in equity

	Notes	Share capital Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2021					
At start of year		450,375	184,833	2,198,809	2,834,017
Profit and total comprehensive income for the year		-	-	155,033	155,033
Transfer to regulatory reserve	26	-	48,853	(48,853)	-
At end of year		450,375	233,686	2,304,989	2,989,050
Year ended 31 December 2022					
At start of year		450,375	233,686	2,304,989	2,989,050
Profit and total comprehensive income for the year		-	-	249,809	249,809
Transfer to regulatory reserve	26	-	43,734	(43,734)	-
		450,375	**277,420**	**2,511,064**	**3,238,859**

Bank statement of changes in equity

	Notes	Share capital Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2021					
At start of year		450,375	184,833	2,134,392	2,769,600
Profit and total comprehensive income for the year		-	-	155,033	155,033
Transfer from regulatory reserve	26	-	48,853	(48,853)	-
At end of year		450,375	233,686	2,240,572	2,924,633
Year ended 31 December 2022					
At start of year		450,375	233,686	2,240,572	2,924,633
Profit and total comprehensive income for the year		-	-	249,809	249,809
		450,375	**233,686**	**2,490,381**	**3,174,442**
Transfer from regulatory reserve	26	-	43,734	(43,734)	-
		450,375	**277,420**	**2,446,647**	**3,174,442**

Consolidated and Bank Statement of cash flows

	Notes	2022 Shs'000	2021 Shs'000
Cash flows from operating activities			
Profit before income tax		272,387	135,266
Adjustment for:			
Depreciation of property and equipment	18	12,849	11,778
Amortisation of right-of-use assets	19	35,130	35,437
Amortisation of intangible assets	20	2,522	1,977
Interest on lease liabilities	24	32,017	31,005
Gain on disposal of property and equipment	8	-	(1,163)
Cash flows from operating activities before changes in operating assets and liabilities		354,905	214,300
Movements in:			
Gross loans and advances		576,951	940,989
Cash reserve requirement		104,771	(46,852)
Other assets and prepayments		(186,999)	135,544
Government securities at amortised cost with a maturity of more than 90 days	28	1,303,131	(1,575,544)
Customer deposits		(2,472,075)	1,105,985
Other liabilities and accrued expenses		84,501	(299,113)
Interest paid on lease liabilities	24	(32,017)	(31,005)
Income tax paid	10	(37,819)	(47,962)
Net cash generated from operating activities		(304,651)	396,342
Cash flows from investing activities			
Purchase of property and equipment	18	(10,641)	(3,047)
Purchase of intangible assets	20	-	(5,642)
Proceeds from disposal of property and equipment		-	1,163
Net cash used in investing activities		(10,641)	(7,526)
Cash flows from financing activities			
Repayment of lease liabilities	24	(16,080)	(15,707)
Cash used in financing activities		(16,080)	(15,707)
Net decrease in cash and cash equivalents		**(331,372)**	**373,109**
Cash and cash equivalents at start of year		4,058,133	3,685,024
Cash and cash equivalents at end of year	**28**	**3,726,761**	**4,058,133**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Notes

1 General information

The Bank is incorporated in Kenya under the Companies Act, 2015 and is domiciled in Kenya. The address of its registered office is:

Guardian Centre
Biashara Street
PO Box 67437 - 00200 GPO
Nairobi

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for derivative financial assets and the loan note at fair value through profit or loss which have been measured at fair value.

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

Changes in accounting policy and disclosures

The section below provides a summary of (i) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2022 (i.e. years ending 31 December 2022), and (ii) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2023.

(i) New and amended standards and interpretations adopted by the Bank and Group

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Con-ceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recog-nised at the acquisition date.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

None of these standards had a significant impact on the Group's financial statements.

(ii) Standards, interpretations and amendments issued but not effective and have not been early adopted by the Group and Bank

Number	Effective date	Executive summary
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Number	Effective date	Executive summary
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023 [deferred from 1 January 2022]	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

(c) Recognition of Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing instruments measured at amortised cost using the effective interest method.

Effective interest rate

Income from government securities at amortised cost, deposits and balances due from other banking institutions and loans and advances to customers is recognised in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or
— the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that were credit-impaired on initial recognition, purchased originated credit impaired (POCI) assets, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset less any provisions. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(d) Fees and commissions
Fees and commissions income are generally recognised on an accrual basis when the service has been provided. The fees that are integral to lending which includes commitment fees are amortised over the life of the loan and recognised under interest income.

Fees and commissions expense are generally recognised on an accrual basis when incurred.

(e) Translation of foreign currencies
(i) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Group operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which is the Group's presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand (Shs '000).

(ii) Transactions and balances

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date.

The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in profit or loss statement in the year in which they arise, except for differences arising on translation of non-monetary assets measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

(f) Financial assets and liabilities
(i)Classification and measurement of financial instruments

The Group classifies its financial assets on initial recognition into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- Measured at amortised cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL).

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

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

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of financial assets instead of its gross

carrying amount and incorporates the impact of expected credit losses in estimated future cashflows.

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

Interest Income and interest expense

FInterest income and interest expense is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
b) Financial assets that are not POCI but have subsequently become credit impaired for which revenue is calculated by applying the effective interest rate to their amortised cost.

Initial recognition and measurement

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

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

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

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

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

Financial assets

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:
(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3 (a). Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
  The Group recognises cash and balances with Central Bank, deposits and balances due from financial institutions, investments in government securities, loans and advances to customers and other assets at amortised cost

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
  The Group has no financial assets classified at FVOCI.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method
  The Group not have financial assets classified at FVTPL.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the

contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.
The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

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

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

Note 4 (a) provides more detail of how the expected credit loss allowance is measured.

(ii) Modification of loans
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether the new terms are substantially different from the original terms. The Group does this by considering, among others, the following factors:
- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition,

and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

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

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

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

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

Financial liabilities
(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discount-ed present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% dif-ferent from the discounted present value of the remaining cash flows of the original finan-cial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

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

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

(g) Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(i) Assets carried at amortised cost
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment

losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held at amortised cost investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised
financial asset uses the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to Groups and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (at amortised cost and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) Renegotiated loans

Loans whose terms have been renegotiated are treated as new loans and their classification is maintained unless:

- For loans that are not impaired, the loans have exhibited weaknesses which may weaken the assets or inadequately protect the institution's position at some future date, in which case they are classified as 'impaired'; or
- For impaired loans, all past due principal and interest is repaid in full at the time of renegotiation, in which case they may revert to 'past due but not impaired' classification. They may then be reclassified as 'neither past due nor impaired' if a sustained record of performance is maintained for six months from the date of renegotiation.

In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due

(h)Property and equipment

(i) Recognition and measurement
Items of property and equipment are initially recognised at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

After initial recognition, property and equipment is measured at cost less accumulated depreciation.

(ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of each item of property and equipment. The estimated useful lives are as follows:

- Buildings — 40 years
- Leasehold improvements — 5 years
- Fixtures, fittings and equipment — 8 years
- Computers software and hardware — 3 years
- Motor vehicles — 4 years

vi) Disposal of property and equipment

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

(i) Intangible assets

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

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. The core banking software has a maximum expected useful life of 3 years.

(j) Offsetting

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

(k) Income tax

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

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

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

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

(l) Employee benefits

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

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group and its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(m) Dividends payable
Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(n) Forward foreign exchange contract
Forward foreign exchange contracts are carried at their fair value. Fair values are obtained from appropriate pricing models.

Gains and losses on forward foreign exchange contracts are included in foreign exchange income as they arise.

(o) Acceptances and letters of credit
Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as

contingent liabilities.

(p) Leases

(i) Determination
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used.

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

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

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underly-ing asset is not expected to pass to the Group at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

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

(q) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits and balances due from financial institutions, other short-term highly liquid investments with original maturities of three months or less, including cash and balances with Central Bank of Kenya, treasury and other eligible bills and amounts due from other Groups. Cash and cash equivalents exclude the cash reserve requirements held with the Central Bank of Kenya.

(r) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits and balances due to Banking institutions or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or deposits and balances from Banking institutions as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(s) Share capital

Ordinary shares are classified as equity. Any premium received over and above the par value of the shares is classified as share premium in equity.

(t) Regulatory reserve

Where impairment losses required by Central Bank of Kenya Prudential Guidelines exceed those computed under IFRS, the excess is recognised as a regulatory reserve and is accounted for as an appropriation of retained earnings. The regulatory reserve is non-distributable.

(u) Deposits from customers

Deposits from customers are recognised and accounted for on receipt basis as liabilities. Interest expense is accrued on the deposits on a daily basis.

(v) Work in progress

Work-in-progress includes assets paid for but are not yet ready for the intended use and include software, computers and equipment. These are not depreciated and are capitalised when they get in the location and condition necessary for them to be capable of operating in the manner intended by management.

(w) Derivative financial assets and liabilities

The Group enters into derivatives (currency forwards and swaps) for trading purposes. At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. The Group may take positions with the expectation of profiting from favourable movement in prices, rates or indices. The Group's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income.

The Group uses the following derivative instruments:

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as a foreign currency rate. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes 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.

Measurement of expected credit losses

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

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

(i) Determining criteria for significant increase in credit risk

As explained in note 2, 4 and 16, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to Note 4(a) for more details.

(ii) Assumptions used

The Group makes various assumptions in estimating ECL of the financial assets. Judgement is applied in identifying the most appropriate assumptions to be used in the model including assumptions that relate to key drivers of credit risk. See Note 2, 4 and 16 for more details.

4 Financial risk management

By their nature, the Group's activities are principally related to the use of financial instruments. The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks, measure these risks and manage the risk positions. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

Financial risk management is carried out by the treasury function under policies approved by the Board of Directors. The Board provides written principles for overall risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk and regularly undertakes a portfolio review to vet the potential risk of each economic sector that the Group is exposed to.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to annual review. Lim-its on the level of credit risk by product and industry sector are regularly reviewed and ap-proved by the Board of Directors.

The exposure to any one borrower including groups is further restricted by sublimits covering on and off-balance sheet exposures.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtain-ing collateral and corporate and personal guarantees.

Credit related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assur-ances that the Group will make payments in the event that a customer cannot meet its obli-gations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Measurement of expected credit losses
IFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit impaired at initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3;
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis;
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information; and
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk
The Group 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's historical experience, expert credit assessment and forward-looking information.

The Group 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 days past due (DPD) rebuttable presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was non-performing and is now regularised (subject to the regulatory cooling off period); or
- by comparing, where information is available, an exposure's:
- credit risk quality at the date of reporting; with
- the credit risk quality on initial recognition of the exposure.

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 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's internal credit risk management process.
The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears.

In addition, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group 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 are applied:
- Classification of exposures by any other groups 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 organisation;
- 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 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 Group 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.

Definition of default
The Group will consider a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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. 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 Group 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 Group; 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 incorporates forward-looking information in its measurement of ECLs.

The Group applies linear regression to determine the forward-looking adjustment to incorporate in its ECL. The Group 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'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 Group and the International Monetary Fund and selected private-sector and academic forecasters.

The Group 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 and inflation.

Modified financial assets

The contractual terms of loans and advances may be modified because of 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 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 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'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.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Group 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 (see above).

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 will be adjusted to reflect forward-looking information as described above.

Probability of default (PD)

Loan listings and the borrower Central Bank risk classifications from 2018 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 be assessed at portfolio level for portfolios of assets that have similar characteristics. The Group has categorised its loans and advances into three segments, Business, Corporate and Personal.

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 estimates LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties.

The LGD models 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.

The collateral values to consider will be calculated on a discounted cash flow basis using the effective The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest.

The table below highlights the Bank's acceptable collateral types:

Collateral type
1 Cash under lien
2 Corporate guarantees
3 Debenture / land
4 Government guarantee
5 Hire purchase agreement
6 Land & buildings - Commercial
7 Land & buildings - Residential
8 Logbooks
9 Shares
10 Treasury bonds / bills

Exposure at Default

EAD represents the expected exposure in the event of a default. The Group 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 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 considers a longer period.

The maximum contractual period extends to the date at which the Group 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 will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Product type; and
- Industry.

The bankings will be subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

Credit quality

In measuring expected credit losses the Group has segmented its loans and advances to customers into three segments: Corporate, Business and personal based on their different risk characteristics.

The following tables set out information about the credit quality and credit risk exposure of financial assets measured at amortised cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts at 31 December 2022. For loan commitments and non-financial guarantees the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities.

Corporate segment	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	4,545,946	-	-	4,545,946	4,729,062
Watch	-	179,104	-	179,104	508,602
Non-performing	-	-	1,146,065	1,146,065	1,054,834
Loss allowance	(4,965)	(7,072)	(361,810)	(373,847)	(606,120)
Carrying amount	**4,540,981**	**172,032**	**784,255**	**5,497,268**	**5,686,378**

Business segment	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	331,290	-	-	331,290	509,204
Non-performing	-	-	49,295	49,295	122,883
Loss allowance	(61)	-	(38,122)	(38,183)	(93,749)
Carrying amount	**331,229**	**-**	**11,173**	**342,402**	**538,338**

Personal segment	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	535,623	-	-	535,623	660,683
Watch	-	-	-	-	-
Non-performing	-	-	12,899	12,899	79,778
Loss allowance	(3,230)	-	(8,482)	(11,712)	(11,747)
Carrying amount	**532,393**	**-**	**4,417**	**536,810**	**728,714**

Total loans and advances	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	5,412,859	-	-	5,412,859	5,898,949
Watch	-	179,104	-	179,104	508,602
Non-performing	-	-	1,208,259	1,208,259	1,257,496
Loss allowance	(8,256)	(7,072)	(408,414)	(423,742)	(711,616)
Carrying amount	**5,404,603**	**172,032**	**799,845**	**6,376,480**	**6,953,431**

Off balance sheet commitments	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	747,600	-	-	747,600	768,395
Loss allowance	(12)	-	-	(12)	(9)
Carrying amount	**747,588**	**-**	**-**	**747,588**	**768,386**

Deposits and placements due from banking institutions		2022			2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	1,145,537	-	-	1,145,537	452,549
Loss allowance	(5,749)	-	-	(5,749)	(660)
Carrying amount	**1,139,788**	**-**	**-**	**1,139,788**	**451,889**

Government securities at amortised cost		2022			2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	5,578,151	-	-	5,578,151	6,823,378
Loss allowance	(13,773)	-	-	(13,773)	(18,749)
Carrying amount	**5,564,378**	**-**	**-**	**5,564,378**	**6,804,629**

Other assets		2022			2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	306,379	-	-	306,379	121,403
Loss allowance	-	-	-	-	-
Carrying amount	**306,379**	**-**	**-**	**306,379**	**121,403**

Balances with Central Bank of Kenya		2022			2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Normal	1,277,365	-	-	1,277,365	2,380,243
Loss allowance	-	-	-	-	-
Carrying amount	**1,277,365**	**-**	**-**	**1,277,365**	**2,380,243**

Maximum exposure to credit risk before collateral held	2022 Shs'000	2021 Shs'000
Balances with Central Bank of Kenya (Note 12)	1,277,365	2,380,243
Government securities at amortised cost (Note 13)	5,564,378	6,804,629
Deposits and balances due from banking institutions (Note 14)	1,139,788	451,889
Loans and advances to customers (Note 16)	6,376,480	6,953,431
Other assets (Note 15)	306,379	121,403
Credit risk exposures relating to off-balance sheet items (Note 27):		
- Acceptances and letters of credit	165,853	331,994
- Guarantee and performance bonds	581,747	453,202
	15,411,990	**17,496,791**

The maximum exposure table represents a worst-case scenario of credit risk exposure to the Group at 31 December 2022 and 2021, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet. As shown above, 49% of the total maximum exposure is derived from loans and advances to customers and deposits (2021: 42%) while 36% represents investments in government securities (2021: 39%).

Loans and advances to customers and off-balance sheet items, other than to major corpo-rates, are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees. All other financial assets have no collateral held on them.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt se-curities based on the following:

- the Group exercises stringent controls over the granting of new loans;
- 82% of the loans and advances portfolio are neither past due nor impaired (2021: 83%);
- 98% of the loans and advances portfolio are backed by collateral; and
- 100% of the investments in debt securities are government securities.

Credit risk exposure

Financial assets that are past due or impaired

The Group aligns the classification of assets that are past due or impaired in line with the Central Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into five categories as follows:

CBK PG/04 Guidelines	Days past due	IFRS 9 Stage allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 365	3
Loss	Over 365 or considered uncollectible	3

Loans and advances are summarised as follows:	2022 Shs'000	2021 Shs'000
Up to 30 days past due but not impaired	5,412,859	5,898,948
31 – 90 days past due but not impaired	179,104	508,602
Impaired	1,208,259	1,257,497
Gross	6,800,222	7,665,047
Less: allowance for impairment	(432,742)	(711,616)
Net	**6,367,480**	**6,953,431**

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor im-paired can be assessed based on the Central Bank of Kenya rating which the Group has adopted:

	2022 Shs'000	2021 Shs'000
Normal – stage 1	5,412,859	5,898,948
Watch – stage 2	179,104	508,602
	5,591,963	**6,407,550**

Loans and advances renegotiated

Of the total gross amount of loans and advances, the following amounts have been renegotiated:

	2022 Shs'000	2021 Shs'000
Renegotiated loans and advances	**695,481**	**826,325**

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2022 Shs'000	2021 Shs'000
Past due 31 - 90 days	**179,104**	**508,602**

Collateral on loans and advances

The Bank routinely obtains collateral and security to mitigate credit risk. The Bank ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, the Bank ensures that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice.

The principal collateral types held by the Bank for loans and advances are:

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

Valuation of collateral taken are within agreed parameters and are conservative in value. The valuation is performed on origination, in the course of enforcement actions or after every 3 to 5 years. Collateral for impaired loans is reviewed regularly to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation.

The Bank has considered all relevant factors, including local market conditions and practices, before any collateral is realized.

The collateral held by the Bank against loans and advances is as below;

	2022 Shs'000	2021 Shs'000
Property	8,957,282	13,199,473
Equities	160,000	160,000
Other*	7,524,737	6,025,849
	16,642,019	**19,385,322**

*Other includes logbooks, cash cover, debentures and directors' guarantees

(b) Concentration risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

	2022		2021	
	Loans and advances	Unused credit commitments	Loans and advances	Unused credit commitments
	%	%	%	%
Manufacturing	15%	30%	9%	19%
Wholesale and retail trade	38%	44%	40%	36%
Transport and communications	9%	5%	9%	9%
Agricultural	-	-	1%	-
Individuals	8%	4%	9%	1%
Real estate	17%	10%	17%	19%
Building and construction	10%	6%	12%	13%
Other	3%	1%	3%	3%
	100%	**100%**	**100%**	**100%**

Customer deposits	2022	2021
	%	%
Insurance Companies	1%	-
Private enterprise`	24%	24%
Individuals	57%	59%
Non-profit institutions	7%	7%
Resident foreign currency	11%	10%
	100%	**100%**

(c) Liquidity risk

The definition of liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan drawdowns. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in: – an inability to support normal business activity; and – a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group. In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

The efficient management of liquidity is essential to the Group in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

- maintain liquid resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board,
- maintain market confidence in the Group's name,
- set limits to control liquidity risk within and across lines of business,
- accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement,
- set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources,
- project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items, and
- maintain a contingency funding plan ("CFP") that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust

Management of liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and calls on cash settled contingencies. The Group 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 cer-tainty.

The matching and controlled mismatching of the maturities of assets and liabilities is funda-mental to the management of the Group. By the very nature of operations, it is unusual for Groups to ever completely

match assets and liabilities. The Central Bank of Kenya requires that the Group maintain a cash reserve ratio and minimum liquidity ratios. 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-Group and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The treasury department monitors liquidity ratios on a daily basis, and this is closely reviewed by the Risk Management Com-mittee.

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

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

	2022	2021
At 31 December		
Average for the year	66.13%	61.03%
Maximum for the year	67.70%	67.65%
Minimum for the year	64.53%	54.80%

The table below analyses assets and liabilities into relevant maturity brackets based on the remaining period at 31 December 2022 to the contractual maturity date. All figures are in thousands of Kenya Shillings.

At 31 December 2022	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
Financial assets						
Cash and balances with Central Bank of Kenya	1,385,476	-	-	-	-	1,385,476
Government securities at amortised cost	556,584	1,921,452	776,214	573,286	3,694,553	7,522,089
Deposits and balances due from banking institutions	1,139,788	-	-	-	-	1,139,788
Other assets	306,379	-	-	-	-	306,379
Loans and advances to customers	8,976	137,195	3,534,349	3,790,587	1,701,252	9,172,359
Total financial assets	**3,397,203**	**2,058,647**	**4,310,563**	**4,363,873**	**5,395,805**	**19,526,091**
Financial liabilities						
Deposits from customers	6,056,443	5,099,678	729,105	97,994	-	11,983,220
Other liabilities and accrued expenses	-	-	211,220	-	-	211,220
Lease liabilities	**1,340**	**6,700**	**9,025**	**198,111**	**322,375**	**537,551**
Total financial liabilities	**6,057,783**	**5,106,378**	**949,350**	**296,105**	**322,375**	**12,731,991**
Net liquidity gap	**(2,660,580)**	**(3,047,731)**	**3,361,213**	**4,067,768**	**5,073,430**	**6,794,100**

At 31 December 2021	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
Financial assets						
Cash and balances with Central Bank of Kenya	2,572,400	-	-	-	-	2,572,400
Government securities at amortised cost	765,982	2,270,349	1,916,030	354,718	3,318,842	8,625,921
Deposits and balances due from banking institutions	451,889	-	-	-	-	451,889
Other assets	121,403	-	-	-	-	121,403
Loans and advances to customers	28,198	17,065	3,797,454	3,912,239	2,369,901	10,124,857
Total Financial assets	3,939,872	2,287,414	5,713,484	4,266,957	5,688,743	21,896,470
Financial Liabilities						
Deposits from customers	7,391,170	6,448,618	538,088	12,266	-	14,390,142
Other liabilities and accrued expenses	-	-	126,719	-	-	126,719
Lease liabilities	1,309	6,545	8,816	207,007	250,992	474,669
Total Financial liabilities	**7,392,479**	**6,455,163**	**673,623**	**219,273**	**250,992**	**14,991,530**
Net liquidity gap	**(3,452,607)**	**(4,167,749)**	**5,039,861**	**4,047,684**	**5,437,751**	**6,904,940**

The matching and controlled mismatching of the maturities and interest rates of assets and liabil-ities is fundamental to the management of the Group. It is unusual for Groups ever to be com-pletely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

(d) 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 optimising the return on risk. Overall responsibility for managing market risk rests with the Risk Management Committee. The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by Risk Management Committee) and for the day to day implementation of those policies.

Management of market risks

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

Furthermore, it includes the protection and enhancement of the statement of financial position and profit or loss and facilitating business growth within a controlled and transparent risk management framework.

All foreign exchange risk within the Group is managed by the treasury department. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

(i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored regularly by management. In addition, the Central Bank of Kenya monitors the foreign currency position on a regular basis.

The Group had the following significant foreign currency positions (all amounts expressed in thousands of Kenya Shillings):

At 31 December 2022	USD	GBP	Euro	Other	Total
Assets					
Cash and balances with Central Bank of Kenya	712,602	21,260	7,734	-	741,596
Deposits and balances due from Banking institutions	172,956	19,839	3,462	1,328	197,584
Loans and advances to customers	399,315	6	53,866	-	453,187
Other assets	7,192	-	-	-	7,192
Total assets	**1,292,065**	**41,105**	**65,062**	**1,328**	**1,399,559**
Liabilities					
Customer deposits	1,267,856	41,230	12,315	3	1,321,404
Other liabilities and accrued expenses	1,630	333	52,633	-	54,596
Total liabilities	**1,269,486**	**41,563**	**64,948**	**3**	**1,376,000**
Net balance sheet position	**22,579**	**(458)**	**114**	**1,325**	**23,559**
Net off-balance sheet position	**402,867**	**-**	**52,506**	**-**	**455,373**

At 31 December 2021	USD	GBP	Euro	Other	Total
Assets					
Cash and balances with Central Bank of Kenya	677,649	14,150	2,893	-	694,692
Deposits and balances due from Banking institutions	274,091	47,466	31,544	1,319	354,420
Loans and advances to customers	374,232	860	143,083	-	518,175
Total assets	**1,325,972**	**62,476**	**177,520**	**1,319**	**1,567,287**
Liabilities					
Customer deposits	1,308,077	62,148	21,213	12	1,391,450
Other liabilities and accrued expenses	5,046	93	153,592	20	158,751
Total liabilities	**1,313,123**	**62,241**	**174,805**	**32**	**1,550,201**
Net balance sheet position	**12,849**	**235**	**2,715**	**1,287**	**17,086**
Net off-balance sheet position	**424,038**	**-**	**153,592**	**-**	**577,630**

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

At 31 December 2022, if the Shilling had strengthened/weakened by 10% against the major currencies with all other variables held constant, pre-tax profit for the year would have been lower/higher by Shs 2.3 million (2021: Shs 1.7million) as illustrated below:

Impact on shilling strengthening per currency (Shs '000)

	USD	GBP	Euro	Other	Total
At 31 December 2022 (10%)	**2,258**	**(46)**	**11**	**133**	**2,356**
At 31 December 2021 (10%)	**1,285**	**23**	**271**	**129**	**1,708**

Impact on shilling weakening per currency (Shs '000)

	USD	GBP	Euro	Other	Total
At 31 December 2022 (10%)	**(2,258)**	**46**	**(11)**	**(133)**	**(2,356)**
At 31 December 2021 (10%)	**(1,285)**	**(23)**	**(271)**	**(129)**	**(1,708)**

(ii) Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result 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 exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised 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 2022	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Non -interest bearing	Total
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,385,476	1,385,476
Government securities at amortised cost	556,584	1,921,452	691,504	321,691	2,073,147	-	5,564,378
Deposits and balances due from banking institutions	1,139,788	-	-	-	-	-	1,139,788
Other assets	-	-	-	-	-	306,379	306,403
Loans and advances to customers	8,976	137,195	3,148,640	2,127,035	954,634	-	6,376,480
Total assets	**1,705,348**	**2,058,647**	**3,840,144**	**2,448,726**	**3,027,781**	**1,691,855**	**14,772,525**
Liabilities							
Customer deposits	6,056,443	5,099,678	649,537	70,189	-	-	11,875,847
Other liabilities and accrued expenses	-	-	-	-	-	211,220	211,220
Lease liabilities	1,340	6,700	8,040	111,167	180,896	-	308,143
Total liabilities	**6,057,783**	**5,106,378**	**657,577**	**181,356**	**180,896**	**211,220**	**12,395,210**
Interest sensitivity gap	(4,352,435)	(3,047,731)	3,182,567	2,267,370	2,846,885	1,480,635	2,377,315

At 31 December 2021	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Non -interest bearing	Total
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	2,572,400	2,572,400
Government securities at amortised cost	765,982	2,270,349	1,706,931	199,045	1,862,322	-	6,804,629
Deposits and balances due from Banking institutions	451,889	-	-	-	-	-	451,889
Other assets	-	-	-	-		121,403	121,403
Loans and advances to customers	28,198	17,065	3,383,032	2,195,299	1,329,837	-	6,953,431
Total assets	**1,246,069**	**2,287,414**	**5,089,963**	**2,394,344**	**3,192,159**	**2,693,803**	**16,903,752**
Liabilities							
Customer deposits	7,391,170	6,448,618	479,366	6,883	-	-	14,326,037
Other liabilities and accrued expenses	-	-	-	-	-	126,719	126,719
Lease liabilities	1,309	6,545	7,854	116,159	140,841	-	272,708
Total liabilities	**7,392,479**	**6,455,163**	**487,220**	**123,042**	**140,841**	**126,719**	**14,725,464**
Interest sensitivity gap	**(6,146,410)**	**(4,167,749)**	**4,602,743**	**2,271,302**	**3,051,318**	**2,567,084**	**2,178,288**

Cash flow and fair value interest rate risk

Fixed interest rate financial instruments expose the Group to fair value interest rate risk. Variable interest rate financial instruments expose the Group to cashflow interest rate risk.

The Group's fixed interest rate financial instruments are government securities, deposits with financial institutions and borrowings. The Group's variable interest rate financial instruments are loans and advances. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The Group regularly monitors financial assets and liabilities. As at 31 December 2022, a 1% increase/decrease in interest rates would have resulted in an increase/decrease in pre-tax profit of Shs 15,606,000 (2021: increase of Shs 15,534,000).

(e) Fair value estimation

At 31 December 2022	Amortised cost Shs'000	Total carrying amount Shs'000	Fair value Shs'000
Assets			
Cash and balances with Central Bank of Kenya	1,385,476	1,385,476	1,385,476
Government securities at amortised cost	5,564,378	5,564,378	5,564,378
Deposits and balances due from Banking institutions	1,139,788	1,139,788	1,139,788
Loans and advances to customers	6,376,480	6,376,480	6,376,480
Other financial assets	306,403	306,403	306,403
	14,772,525	14,772,525	14,772,525
Liabilities			
Customer deposits	11,758,183	11,758,183	11,758,183

At 31 December 2021	Amortised cost Shs'000	Total carrying amount Shs'000	Fair value Shs'000
Assets			
Cash and balances with Central Bank of Kenya	2,572,400	2,572,400	2,572,400
Government securities at amortised cost	6,804,629	6,804,629	6,804,629
Deposits and balances due from Banking institutions	451,889	451,889	451,889
Loans and advances to customers	6,953,431	6,953,431	6,953,431
Other financial assets	126,719	126,719	126,719
	16,909,068	16,909,068	16,909,068
Liabilities			
Customer deposits	14,223,385	14,223,385	14,223,385

(f) Capital management

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

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

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 Group to:

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

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.

	2022 Shs'000	2021 Shs'000
Tier 1 capital	2,946,196	2,755,364
Tier 1 + Tier 2 capital	3,223,616	2,989,050
Risk-Weighted assets		
On-balance sheet	7,011,733	7,240,018
Off-balance sheet	715,734	768,794
Market risk weighted assets	1,551,270	1,571,053
Operational risk weighted assets	1,809,388	1,743,817
Total Risk-Weighted assets	11,088,125	11,323,682
Basel ratio		
Tier 1 (minimum – 10.5%)	26.57%	24.33%
Tier 1 + Tier 2 (minimum – 14.5%)	29.07%	26.40%

5 Interest income – Group and Bank

	2022 Shs'000	2021 Shs'000
(a) Interest income		
Loans and advances to customers	978,449	1,082,051
Government securities at amortised cost	604,230	533,145
Placements	32,755	15,252
	1,615,434	**1,630,448**
(b) Interest expense		
Customer deposits	695,168	742,826
Deposits and balances due to banking institutions	-	58
Lease liabilities (Note 24)	32,017	31,005
Net interest income	**888,249**	**856,559**

6 Fee and commission income – Group and Bank

	2022 Shs'000	2021 Shs'000
Service charge	8,727	8,395
Other fees and commission	32,988	31,414
	41,715	**39,809**

7 Foreign exchange income – Group and Bank

	2022 Shs'000	2021 Shs'000
Foreign exchange gain	102,257	32,936

8 Other operating income – Group and Bank

	2022 Shs'000	2021 Shs'000
Rental income	171	299
Gain on disposal of property and equipment	-	1,163
Bad debt recoveries*	2,599	24,556
Other income	4,220	5,364
	6,990	**31,382**

* Bad debt recoveries relate to loan recoveries that had previously been written off from the Bank's books.

9 (a) Operating expenses – Group and Bank

	2022 Shs'000	2021 Shs'000
The following items have been charged in arriving at profit before tax:		
Employees benefits (Note 9(b))	349,864	375,476
Depreciation on property and equipment (Note 18)	12,849	11,778
Amortisation of intangible assets (Note 20)	2,522	1,977
Amortisation on right-of-use asset (Note 19)	27,131	27,438
Occupancy expenses	36,119	35,923
Auditors' remuneration	8,846	8,846
Amortisation of prepaid operating lease (Note 19)	7,999	7,999
Other operating expenses	208,873	188,910
	654,203	**658,347**

9 (b) Employee benefits – Group and Bank

	2022 Shs'000	2021 Shs'000
The following items are included within employees' benefits:		
Staff salaries	306,309	330,877
Retirement benefits cost	13,860	14,944
National Social Security Fund	273	278
Medical costs	3,526	2,890
Other staff costs	25,896	26,487
	349,864	**375,476**

The average number of employees during the year was 116 (2020: 119).

10 Income tax charge/ (credit) – Group and Bank

	2022 Shs'000	2021 Shs'000
Current income tax charge	61,876	34,381
Under provision of deferred income tax credit in prior year	-	(492)
Deferred income tax credit (Note 17)	(39,298)	(53,656)
Income tax charge / (credit)	**22,578**	**(19,767)**

The tax on the Group's and Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2022 Shs'000	2021 Shs'000
Profit before income tax	272,387	135,266
Tax calculated at the statutory income tax rate of 30% (2021: 30%)	81,716	40,580
Tax effect of:		
Other expenses not deductible for tax purposes	(59,138)	(20,321)
Under provision of deferred income tax credit in prior year	-	(492)
Income tax expense / (credit)	22,578	(19,767)
Tax recoverable		
At start of year	(47,013)	(33,432)
Current income tax	24,057	34,381
At end of year	**(22,956)**	**(47,013)**
Current income tax		
At start of year	-	-
Charge for the year	61,876	-
Paid during the year	(37,819)	-
At end of year	**24,057**	**-**

11 Earnings per share – Group and Bank

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 249,809,000 (2021: Shs 155,033,000) and on the weighted average number of ordinary shares outstanding during the period

	2022	2021
Net profit attributable to shareholders (Shs '000)	249,809	155,033
Number of ordinary shares in issue (Note 25)	22,518,750	22,518,750
Basic earnings per share (Shs)	11.09	6.88

There were no potentially dilutive shares outstanding at 31 December 2022 and 2021. Diluted earnings per share is therefore the same as basic earnings per share.

12 Cash and balances with Central Bank of Kenya – Group and Bank

	2022 Shs'000	2021 Shs'000
Cash in hand	108,111	192,157
Local currency balances with Central Bank of Kenya	564,866	1,707,940
Foreign currency balances with Central Bank of Kenya	712,499	672,303
	1,385,476	**2,572,400**
Less: cash reserve requirement	**(499,723)**	**(604,494)**

The cash ratio reserve is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2022, the cash reserve ratio requirement was 4.25% of eligible deposits (2021 – 4.25%). The funds are available for use by the Group in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided the overall average in the month is at least 4.25% (2021 – 4.25%).

13 Government securities at amortised cost – Group and Bank

	2022 Shs'000	2021 Shs'000
Treasury bills		
With an original tenor of less than 90 days	1,701,220	1,638,338
With an original tenor of more than 90 days	1,476,165	3,008,853
Treasury bonds		
With an original tenor of more than 90 days	2,400,766	2,176,187
	5,578,151	**6,823,378**

Treasury bills and bonds are debt securities issued by the Central Bank of Kenya.

	2022 Shs'000	2021 Shs'000
Movement at cost		
At start of year	6,823,378	5,657,856
Maturity of securities	(6,954,627)	(8,079,243)
Purchases of securities	5,709,400	9,244,765
At end of year	5,578,151	6,823,378
12- month ECL		
At start of year	(18,749)	(15,153)
Credit/(charge) for the year	4,976	(3,596)
At end of year	(13,773)	(18,749)
Net balance	**5,564,378**	**6,804,629**

The weighted average effective interest rate on investment securities for the year was: 10.15% (2021: 8.46%).

14 Deposits and balances due from banking institutions – Group and Bank

	2022 Shs'000	2021 Shs'000
Local currency deposits	947,953	98,129
Foreign currency balances with foreign banks	197,584	354,420
	1,145,537	452,549
Expected credit loss		
At 1 start of year	(660)	(659)
Charge for year	(5,089)	(1)
At end of year	(5,749)	(660)
	1,139,788	**451,889**

The weighted average effective interest rate on investment securities for the year was: 5.32% (2021: 5.01%).

15 Other assets and prepayments – Group and Bank

	2022 Shs'000	2021 Shs'000
Items in transit	174,659	99,976
Prepayments	33,643	31,244
Private placements	50,342	-
Other receivables	81,378	21,427
	340,022	**152,647**

16 Loans and advances to customers – Group and Bank

	2022 Shs'000	2021 Shs'000
Overdrafts	2,380,369	2,683,827
Loans	3,146,918	3,959,942
Bills discounted	281,425	180,204
Hire purchase	445,364	429,813
Premium financing	542,198	362,160
Bills purchased	3,948	49,101
Gross loans and advances	**6,800,222**	**7,665,047**
Less: Provision for impairment of loans and advances		
- Stage 1	8,256	14,228
- Stage 2	7,072	5,310
- Stage 3	408,414	692,078
	423,742	711,616
Net loans and advances	**6,376,480**	**6,953,431**

i) Loans and advances to customers at amortised cost

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Gross carrying amount as at 1 January 2022	5,898,948	508,602	1,257,497	7,665,047
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 3	(3,213)	-	3,213	-
- Transfer from stage 1 to stage 2	(93,728)	93,728	-	-
- Transfer from stage 2 to stage 3	-	(423,525)	423,525	-
- Write-offs	-	-	(384,218)	(384,218)
Net remeasurement of loan balance	(492,707)	299	19,810	(472,598)
New financial assets originated	1,733,260	-	-	1, 733,260
Financial assets that have been derecognised	(1,629,701)	-	(111,568)	(1,741,269)
Gross carrying amount as at 31 December 2022	**5,412,859**	**179,104**	**1,208,259**	**6,800,222**
Gross carrying amount as at 1 January 2021	7,044,861	322,675	1,180,555	8,548,091
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 3	(63,035)	-	63,035	-
- Transfer from stage 1 to stage 2	(396,426)	396,426	-	-
- Transfer from stage 2 to stage 3		(217,522)	217,522	
Write-offs	-	-	(82,461)	(82,461)
Net remeasurement of loan balance	(553,324)	13,289	42,808	(497,227)
New financial assets originated	1,371,756	-	1,249	1,373,005
Financial assets that have been derecognised	(1,504,884)	(6,266)	(165,211)	(1,676,361)
Gross carrying amount as at 31 December 2021	**5,898,948**	**508,602**	**1,257,497**	**7,665,047**

ii) Provisions – Loans and advances to customers

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
At 1 January 2022	**14,228**	**5,310**	**692,078**	**711,616**
Changes in expected credit loss:				
- Transfer from stage 1 to stage 2	(18)	18	-	-
- Transfer from stage 1 to stage 3	(13)	(1,754)	1,767	-
- Transfer from stage 2 to stage 3	-	-	-	-
- Write-offs	-	-	(317,276)	(317,276)
Net remeasurement of loss allowance	(7,969)	3,498	71,110	66,639
New financial assets originated or purchased	3,299	-	-	3,299
Financial assets that have been derecognised	(1,271)	-	(39,265)	(40,536)
At 31 December 2022	**8,256**	**7,072**	**408,414**	**423,742**

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
At 1 January 2021	**29,161**	**21,924**	**602,587**	**653,672**
Changes in expected credit loss:				
- Transfer from stage 1 to stage 2	(5,843)	5,843	-	-
- Transfer from stage 1 to stage 3	(913)	-	913	-
- Transfer from stage 2 to stage 3	-	(21,522)	21,522	
- Write-offs	-	-	(67,857)	(67,857)
Net remeasurement of loss allowance	(6,283)	(908)	163,463	156,272
New financial assets originated or purchased	2,278	-	1,249	3,527
Financial assets that have been derecognised	(4,172)	(27)	(29,799)	(33,998)
At 31 December 2021	**14,228**	**5,310**	**692,078**	**711,616**

Movements in provisions for impairment of loans and advances are as follows:

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Year ended 31 December 2022				
At 1 January 2022	14,228	5,310	692,078	711,616
Write-off in the year	-	-	(317,276)	(317,276)
Increase/(decrease) in impairment provision	(5,972)	1,762	33,612	29,402
At 31 December 2022	**8,256**	**7,072**	**408,414**	**423,742**
(Credit) /charge to profit or loss	**(5,972)**	**1,762**	**116,831**	**112,621**
Year ended 31 December 2021				
At 1 January 2021	29,161	21,924	602,587	653,672
Write-off in the year	-	-	(67,857)	(67,857)
Increase/(decrease) in impairment provision	(14,933)	(16,614)	157,348	125,801
At 31 December 2021	14,228	5,310	692,078	711,616
(Credit)/charge to profit or loss	(14,933)	(16,614)	198,620	167,073

All loans are written down to their estimated recoverable amount. The amount of non-performing loans (net of impairment losses) at 31 December 2022 was Shs 799,845,000 (2021: Shs 565,419,000).

Loan book movement per sector

The following tables show reconciliations from the opening to the closing balance of the loans and advances by segment:

Loans and advances movement - Corporate	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Balance at 1 January	4,729,061	508,602	1,054,835	6,292,498	7,002,855
Transfer to Lifetime ECL	(93,728)	(329,797)	423,525	-	-
Net re-measurement of loss balance	(353,919)	299	19,490	(334,130)	(391,033)
Net financial assets originated or purchased	1,415,000	-	-	1,415,000	1,174,914
Financial assets derecognised	(1,150,468)	-	(47,170)	(1,197,638)	(1,431,899)
Write offs	-	-	(304,615)	(304,615)	(62,339)
Balance at 31 December	**4,545,946**	**179,104**	**1,146,065**	**5,871,115**	**6,292,498**

Loans and advances movement - Business	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Balance at 1 January	509,204	-	122,883	632,087	658,704
Transfer to Lifetime ECL credit impaired	(3,213)	-	3,213	-	-
Net re-measurement of loss balance	12,547	-	(74,302)	(61,755)	(14,493)
Net financial assets originated or purchased	53,656	-	-	53,656	54,821
Financial assets derecognised	(240,904)	-	-	(240,904)	(62,888)
Write-offs	-	-	(2,499)	(2,499)	(4,057)
Balance at 31 December	**331,290**	**-**	**49,295**	**380,585**	**632,087**

Loans and advances movement - Personal	2022				2021
	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000	Total Shs'000
Balance at 1 January	660,684	-	79,778	740,462	886,532
Transfer to Lifetime ECL credit impaired	-	-	-	-	-
Net re-measurement of loss balance	(151,336)	-	74,623	(76,713)	(91,701)
Net financial assets originated or purchased	264,604	-	-	264,604	143,269
Financial assets derecognised	(238,329)	-	(64,398)	(302,727)	(181,574)
Write offs	-	-	(77,104)	(77,104)	(16,064)
Balance at 31 December	**535,623**	**-**	**12,899**	**548,522**	**740,462**

Loss allowance- movement per sector

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

Corporate	2022				2021
Total ECL loss allowance	**Stage 1 Shs'000**	**Stage 2 Shs'000**	**Stage 3 Shs'000**	**Total Shs'000**	**Total Shs'000**
Balance at 1 January	12,594	5,310	588,216	606,120	507,201
Transfer to 12 months ECL	-	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(18)	18	-	-	-
Transfer to Lifetime ECL credit impaired	-	(1,754)	1,754	-	-
Net re-measurement of loss allowance	(7,810)	3,498	68,108	63,796	153,665
Net financial assets originated or purchased	1,086	-	-	1,086	2,814
Financial assets derecognised	(887)	-	(38,242)	(39,129)	(9,824)
Write offs	-	-	(258,026)	(258,026)	(47,736)
Balance at 31 December	**4,965**	**7,072**	**361,810**	**373,847**	**606,120**

Business	2022				2021
Total ECL loss allowance	**Stage 1** Shs'000	**Stage 2** Shs'000	**Stage 3** Shs'000	**Total** Shs'000	**Total** Shs'000
Balance at 1 January	220	-	93,530	93,750	100,656
Transfer to Lifetime ECL credit impaired	(13)	-	13	-	-
Net re-measurement of loss allow-ance	(116)	-	(52,922)	(53,038)	(964)
Net financial assets originated or purchased	34	-	-	34	49
Financial assets derecognised	(64)	-	-	(64)	(1,934)
Write offs	-	-	(2,499)	(2,499)	(4,057
Balance at 31 December	**61**	**-**	**38,122**	**38,183**	**93,750**

Personal	2022				2021
Total ECL loss allowance	**Stage 1** Shs'000	**Stage 2** Shs'000	**Stage 3** Shs'000	**Total** Shs'000	**Total** Shs'000
Balance at 1 January	1,414	-	10,332	11,746	45,815
Transfer to 12 months ECL	-	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-	-
Net re-measurement of loss allow-ance	(42)	-	55,923	55,881	3,501
Net financial assets originated or purchased	2,178	-	-	2,178	664
Financial assets derecognised	(320)	-	(1,022)	(1,342)	(22,170)
Write offs	-	-	(56,751)	(56,751)	(16,064)
Balance at 31 December	**3,230**	**-**	**8,482**	**11,712**	**11,746**

17 Deferred income tax – Group and Bank

Deferred income tax is calculated using the enacted income tax rate of 30% (2021: 30%). The movement on the deferred income tax account is as follows:

	2022 Shs'000	2021 Shs'000
At start of year	234,692	180,544
Credit to the profit or loss (Note 10)	39,298	53,656
Under provision of deferred income tax credit in prior year	-	492
At end of year	**273,990**	**234,692**

The deferred income tax asset and deferred income tax credit in the profit or loss and are attributable to the following items:

	1 January 2022	Prior year under Provision	Recognised in profit or loss	31 December 2022
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax asset				
Property and equipment	7,551	-	100	7,651
Provisions on loans and advances	189,441	-	33,786	223,227
Gratuity provisions	16,222	-	1,377	17,599
Other provisions	5,825	-	119	5,944
Leave provisions	1,580	-	600	2,180
Right-of-use asset	14,073	-	3,316	17,389
Net deferred income tax asset	**234,692**	**-**	**39,298**	**273,990**

	1 January 2021	Prior year under Provision	Recognised in profit or loss	31 December 2021
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax asset				
Property and equipment	6,998	492	61	7,551
Provisions loans and advances	139,318	-	50,123	189,441
Gratuity provisions	19,178	-	(2,956)	16,222
Other provisions	4,745	-	1,080	5,825
Leave provisions	1,580	-	-	1,580
Right-of-use asset	8,725	-	5,348	14,073
Net deferred income tax asset	**180,544**	**492**	**53,656**	**234,692**

18 Property and equipment – Group and Bank

	Buildings Shs'000	Leasehold Improv-ements Shs'000	Motor vehicles Shs'000	Fixtures fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2021						
Cost						
At 1 January 2021	51,503	84,696	48,968	139,310	375	324,852
Additions	-	-	1,300	1,747	-	3,047
Write offs	-	-	-	(60)	-	(60)
Disposals	-	-	(1,450)	-	-	(1,450)
At 31 December 2021	51,503	84,696	48,818	140,997	375	326,389
Depreciation						
At 1 January 2021	21,846	82,243	42,932	117,083	-	264,104
Charge for the year	1,217	1,442	2,394	6,725	-	11,778
Write offs	-	-	-	(60)	-	(60)
Disposals	-	-	(1,450)	-	-	(1,450)
	23,063	83,685	43,876	123,748	-	274,372
At 31 December 2021	28,440	1,011	4,942	17,249	375	52,017

	Buildings Shs'000	Leasehold Improv-ements Shs'000	Motor vehicles Shs'000	Fixtures fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2022						
Cost						
At 1 January 2022	51,503	84,696	48,818	140,997	375	326,389
Additions	-	225	1,400	9,016	-	10,641
Write offs	-	-	-	-	(375)	(375)
At 31 December 2022	51,503	84,921	50,218	150,013	-	336,655
Depreciation						
At 1 January 2022	23,063	83,685	43,876	123,748	-	274,372
Charge for the year	1,217	520	2,732	8,380	-	12,849
	24,280	84,205	46,608	132,128	-	287,221
At 31 December 2022	27,223	716	3,610	17,885	-	49,434

19 Right-of-Use Assets – Group and Bank

a) Leasehold land	2022 Shs'000	2021 Shs'000
Cost at start of year	269,201	269,201
Accumulated amortisation at start of year	(59,122)	(51,123)
Amortisation charge for the year	(7,999)	(7,999)
Accumulated amortisation at end of year	(67,121)	(59,122)
At end of year	**202,080**	**210,079**

b) Right-of-use assets- office and branch premises	2022 Shs'000	2021 Shs'000
At start of year	225,796	245,535
Modifications	51,515	7,699
Amortisation charge for the year (Note 9(a)	(27,131)	(27,438)
At end of year	**250,180**	**225,796**

The Bank leases various office buildings in the normal course of business. The leases for buildings are typically for a period of between 5 and 6 years, with option to renew at the end of the term. None of these leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

20 Intangible assets – Group and Bank

	2022 Shs'000	2021 Shs'000
Cost at start of year	33,542	28,027
Additions	-	5,642
Prior year overstatement	-	(127)
At end of year	33,542	33,542
Accumulated amortisation charge at start of year	(26,652)	(24,675)
Amortisation charge for the year (Note 9)	(2,522)	(1,977)
At end of year	(29,174)	(26,652)
Net book value at end of year	**4,368**	**6,890**

Capital work in progress	2022 Shs'000	2021 Shs'000
At 1 January	24,917	-
Additions	-	24,917
At 31 December	**24,917**	**24,917**

Bank is in the process of upgrading its core banking software and has partially invested on the licences of the new upgrade which are presented as capital work in progress.

21 Investment in subsidiaries – Bank

	2022 Shs'000	2021 Shs'000
The First National Finance Bank Limited- 100%	104,375	104,375
Guilders International Bank Limited – 100%	196,000	196,000
	300,375	**300,375**
Balances due to related companies		
The First National Finance Bank Limited	156,245	156,245
Guilders International Bank Limited	208,547	208,547
	364,792	**364,792**

22 Deposits from customers – Group and Bank

	2022 Shs'000	2021 Shs'000
Current accounts and demand deposits	2,572,182	2,259,491
Savings and transaction accounts	1,421,327	1,613,428
Fixed deposit accounts	7,867,137	10,453,947
Other deposits	15,201	21,057
	11,875,847	**14,347,923**

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2022 was of 5.40% (2021: 5.61%).

23 Other liabilities and accrued expenses – Group and Bank

	2022 Shs'000	2021 Shs'000
Bills payable	16,866	19,153
Outstanding banker's drafts	10,450	12,461
Accrued leave	7,267	5,267
Gratuity	58,663	54,071
Other accruals and liabilities	117,974	35,767
	211,2203	**126,719**

24 Lease liabilities – Group and Bank

	2022 Shs'000	2021 Shs'000
At start of year	272,708	280,716
Modifications	51,515	7,699
Interest charge for the year (Note 5(b))	32,017	31,005
Rent payments in the year (net of VAT)	(48,097)	(46,712)
At end of year	**308,143**	**272,708**

25 Share capital – Group and Bank

	Number of ordinary Shares	Ordinary shares Shs'000
Balances at 1 January 2021, 31 December 2021 and 31 De-cember 2022	22,518,750	450,375

The total authorised number of ordinary shares is 25,000,000 with a par value of Shs 20 per share. Only 22,518,750 issued shares are fully paid.

26 Regulatory reserve – Group and Bank

	2022 Shs'000	2021 Shs'000
At start of year	233,686	184,833
Transfer from retained earnings	43,734	48,853
At end of year	**277,420**	**233,686**

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with the prudential guidelines over the IFRS impairment provisions. The reserve is non-distributable.

27 Off balance sheet financial instruments, contingent liabilities and commitments – Group and Bank

In the ordinary course of business, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the balance sheet.

Contingent liabilities	2022 Shs'000	2021 Shs'000
Acceptances and letters of credit	165,853	331,994
Guarantee and performance bonds	581,747	453,202
Currency bought & sold	52,506	153,592
	800,106	**938,788**

Nature of contingent liabilities

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

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

Commitments	2022 Shs'000	2021 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,202,273	1,181,188

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of for-eign currency, usually on a specified future date at an agreed rate.

28 Analysis of cash and cash equivalents as shown in the cash flow statement

Group and Bank	2022 Shs'000	2021 Shs'000	Change in the year Shs'000
Balances with Central Bank of Kenya (note 12)	777,642	1,775,749	(998,107)
Cash on hand (note 12)	108,111	192,157	(84,046)
Placements with other banks (note 14)	1,139,788	451,889	687,899
Treasury bills with a tenor of less than 90 days (note 13)	1,701,220	1,638,338	62,882
	3,726,761	**4,058,133**	**(331,372)**

	2022 Shs'000	2021 Shs'000
Cash and balances with Central Bank of Kenya (Note 12)	1,385,476	2,572,400
Deposits and balances due from banking institutions (Note 14)	1,139,788	451,889
Less: cash reserve requirement	(499,723)	(604,494)
	2,025,541	**2,419,795**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a tenor of 90 days: cash and balances with Central Bank of Kenya, deposits and balances due from or to banking institutions, treasury bills and other eligible bills. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum average cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities. At year end, the amount was determined as 4.25% (2021: 4.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

29 Related party disclosures – Group and Bank

In the normal course of business, the Group and Bank issues / operates loans, advances and other facilities, current accounts and placements of foreign currencies with entities connected to some of the Group's and Bank's directors and/ or shareholders as follows:

(i) Loans and advances to related parties

Advances to customers include loans to directors, loans to companies connected to directors or their families and loans to employees as follows;

Advances to Bank employees	**2022 Shs'000**	**2021 Shs'000**
At start of year	17,929	19,751
Advances during the year	7,643	10,627
Repayments during the year	(8,052)	(12,449)
At end of year	17,520	17,929
Advances to directors, shareholders and associates at end of year	69,707	48,224
Interest income earned on advances to employees, directors or entities controlled by directors	6,749	7,143

(ii) Guarantees to directors of the Bank (and their families) and companies controlled by directors:

	2022 Shs'000	**2021 Shs'000**
At start of year	39,723	28,539
Issues	40,692	11,184
Retirement	(10,542)	-
At end of year	**69,873**	**39,723**

(iii) Deposits from related parties

	2022 Shs'000	**2021 Shs'000**
The aggregate amounts of deposits made by staff and directors or entities controlled by directors	7,915,919	6,830,913
The aggregate amounts of deposits withdrawn by staff and directors or entities controlled by directors	7,785,743	7,615,596
Interest expense paid on deposits by directors or entities connected to directors	**85,611**	**63,938**

(iv) Key management compensation

	2022 Shs'000	2021 Shs'000
Salaries and other short-term employment benefits	40,470	43,198

(v) Directors' remuneration

		2022 Shs'000	2021 Shs'000
Fees and other emoluments	- as directors	18,987	30,769
	- as employees	15,043	37,210

Directors' remuneration is determined by the Bank's Board. To attract and retain directors, the Bank has a structure that is competitive in the industry and that is within the Bank's ability to pay.

30 Other contingencies – Group and Bank

In the ordinary course of business, the bank and its subsidiaries are defendants in various litigation and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

There are no material events after the reporting date which require to be disclosed.

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