

**FAMILY BANK LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2022**



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## **Directors**

### **Non-Executive**

Dr. Wilfred D. Kiboro	-Chairman
Mr. Francis Gitau Mungai	-Vice Chairman
Mr. Titus K. Muya	
Mr. Lazarus Muema	
Ms. Mary Njeri Mburu	

### **Executive**

Ms. Rebecca Mbithi- Managing Director and CEO

### **Company secretary**

Mr. Eric K. Murai  
Certified Secretary  
8th Floor, Family Bank Towers,  
Muindi Mbingu Street  
P.O. Box 74145 - 00200, Nairobi  
Tel: 254-2-318173/318940/2/7/0720 098 300  
Fax: 254-2-318174  
Email: [info@familybank.co.ke](mailto:info@familybank.co.ke)  
Website: [www.familybank.co.ke](http://www.familybank.co.ke)

### **Registered office**

Family Bank Limited  
8th Floor, Family Bank Towers, Muindi Mbingu Street  
P.O. Box 74145- 00200, Nairobi  
Tel: 254-2-318173/318940/2/7/0720 098 300  
Fax: 254-2-318174  
Email: [info@familybank.co.ke](mailto:info@familybank.co.ke)  
Website: [www.familybank.co.ke](http://www.familybank.co.ke)

### **Auditor**

PricewaterhouseCoopers LLP  
Certified Public Accountants  
PwC Tower, Waiyaki Way/Chiromo Road, Westlands  
P.O. Box 43963-00100  
Nairobi, Kenya

### **Legal advisers**

Mboya Wangong'u & Waiyaki Advocates  
Lex Chamber, Maji Mazuri Road  
Off James Gichuru Road  
Nairobi

### **Correspondent banks**

Deutsche Bank AG London  
6 Bishopsgate  
London  
EC2P 2AT  
United Kingdom

DZ Bank AG  
60265 Frankfurt am Main

Deutsche Bank Trust Company Americas  
P O Box 318, Church Street Station  
New York, New York 10008 – 0318

### **Board committees**

#### **Credit Committee**

Mr. Francis Mungai	- Chairman
Mr. Titus K. Muya	
Dr. Wilfred D. Kiboro	
Ms. Rebecca Mbithi	

#### **Audit Committee**

Mr. Lazarus Muema	- Chairman
Ms. Mary Mburu	
KTDA Representative	

#### **Risk Management and Compliance Committee**

Ms. Mary Mburu	- Chairman
Mr. Lazarus Muema	
KTDA Representative	

#### **Human Resource Committee**

Mr. Francis Mungai	- Chairman
Ms. Mary Mburu	
Mr. Titus K. Muya	
Dr. Wilfred D. Kiboro	
Mr. Francis Mungai	
Ms. Rebecca Mbithi	

#### **Strategy Committee**

Mr. Lazarus Muema	- Chairman
Mr. Titus K. Muya	
Dr. Wilfred D. Kiboro	
Ms. Rebecca Mbithi	

#### **Nomination Committee**

Dr. Wilfred D Kiboro	- Chairman
Mr. Titus K. Muya	
Mr. Francis Mungai	

The directors submit their report together with the audited financial statements for the year ended 31 December 2022, which disclose the state of affairs of Family Bank Limited (the "Bank" or the "Company") and its subsidiary, Family Bancassurance Intermediary Limited (together the "Group").

## Principal activities

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

## Business review

The global economy kicked off in 2022 in a fundamentally good form with a solid rebound from the pandemic. The rebound was short-lived due to the negative impact driven by the war in Ukraine, combined with rampant inflation across major global economies. In Kenya, the recovery was dampened by global commodity price shocks, the long regional drought, and uncertainty in the run up to the general elections.

Despite challenging environment this year, the Group's transformation journey accelerated both at digital and business expansion fronts. The Group's performance has remained resilient. In 2022, we deepened customer relationships in multiple sectors with an aim of building digital ecosystems along and across value chains.

The Group recorded double digit growth on the balance sheet attributable to a 22% loan book growth as we continuously supported our customers in stabilizing and expanding their businesses. Total assets recorded a 15% growth to close at Kes. 128.5 billion from Kes. 111.7 billion in 2021. The continuing business optimization projects on Business and operating model review are now generating the envisaged efficiencies and growth registering a 12% improvement in profit before tax. Net interest income increased by 15% corresponding to net increase in the loans and advances while customer deposits increased by 8%.

The following is the summary of the results for the year ended 31 December 2022:

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Total assets	128,513,113	111,736,995	128,465,438	111,683,065
Loans and advances to customers	81,380,510	66,901,824	81,380,510	66,901,824
Customer deposits	88,903,786	81,911,522	89,343,232	82,430,537
Profit before taxation	3,744,992	3,336,847	3,741,970	3,144,669

## Dividend

The directors recommend payment of a dividend in respect to the year ended 31 December 2022 of Ksh 795 million for the Bank (2021: Ksh 1.09 billion).

## Directors

The Directors who held office at the date of this report are set out on page 1.

## Events subsequent to the end of the reporting period

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

### Statement as to disclosure to the group's auditor

The directors confirm that with respect to each director at the time of approval of this report:

- (i) there was, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and
- (ii) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

### Terms of appointment of the auditor

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

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

By order of the Board  
SECRETARY



15<sup>th</sup> March 2023

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

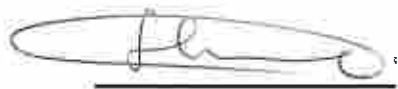
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

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


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

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

Approved by the board of directors on 15<sup>th</sup> March 2023 and signed on its behalf by:



**Director**



**Managing Director & CEO**





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

### **Report on the audit of the financial statements**

#### *Our opinion*

We have audited the accompanying financial statements of Family Bank Limited (the 'Bank' or 'Company') and its subsidiary (together, the Group) set out on pages 10 to 94, which comprise the consolidated and Bank statement of financial position at 31 December 2022 and the consolidated and Bank statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, Bank statement of changes in equity and consolidated and Bank statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

#### *Basis for opinion*

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

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

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

#### *Key audit matters*

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

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

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

### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Expected credit losses on loans and advances at amortised cost</b></p> <p>Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.</p> <p>The policies for estimating ECL are explained in notes 3 (a) and 4.1 of the financial statements.</p> <p>The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:</p> <ul style="list-style-type: none"> <li>the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments;</li> <li>the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of <i>Significant Increase in Credit Risk ("SICR")</i> and <i>Default</i> requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and</li> <li>the relevance of forward-looking information used in the models;</li> </ul> <p>Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.</p>	<p>Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:</p> <ul style="list-style-type: none"> <li>We reviewed the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9;</li> <li>We tested how the Group extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model</li> <li>We reviewed judgments applied in the staging of loans and advances;</li> <li>We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis;</li> <li>For LGD, we tested the assumptions on the timing of the recovery cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports;</li> <li>We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures;</li> <li>For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information, and assessed the reasonableness of the weightings applied to different scenarios.</li> <li>We reviewed and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.</li> </ul>

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

### *Other information*

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

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

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

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

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditor's responsibilities for the audit of the financial statements*

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

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

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



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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

### **Report on other matters prescribed by the Companies Act, 2015**

In our opinion the information given in the Directors' Report on pages 3 and 4 is consistent with the financial statements.

**FCPA Richard Njoroge, Practicing Certificate Number 1244**  
**Engagement partner responsible for the audit**  
**For and on behalf of PricewaterhouseCoopers LLP**  
**Certified Public Accountants**  
**Nairobi**

**31 March 2023**

**Statement of profit or loss and other comprehensive income**

	Notes	Consolidated		Bank	
		2022	2021	2022	2021
		Kshs 000	Kshs 000	Kshs 000	Kshs 000
Interest income	6(a)	13,819,961	11,156,351	13,819,961	11,156,351
Interest expense	7	(4,736,677)	(3,241,600)	(4,778,214)	(3,273,697)
<b>Net interest income</b>		<b>9,083,284</b>	<b>7,914,751</b>	<b>9,041,747</b>	<b>7,882,654</b>
Fee and commission income	8(a)	2,263,453	2,340,395	2,263,453	2,340,395
Fee and commission expense	8(b)	(386,962)	(302,274)	(386,962)	(302,274)
<b>Net fees and commission income</b>		<b>1,876,491</b>	<b>2,038,121</b>	<b>1,876,491</b>	<b>2,038,121</b>
Investment income	6(b)	105,385	120,423	105,385	120,423
Net trading income		664,659	297,421	664,659	297,421
Other income	8(c)	398,345	397,929	360,908	167,084
<b>Operating income</b>		<b>12,128,164</b>	<b>10,768,645</b>	<b>12,049,190</b>	<b>10,505,703</b>
Operating expenses	9	(7,076,041)	(6,155,660)	(7,000,089)	(6,084,896)
Credit impairment losses	16 (b)	(1,307,131)	(1,276,138)	(1,307,131)	(1,276,138)
<b>Profit before taxation</b>		<b>3,744,992</b>	<b>3,336,847</b>	<b>3,741,970</b>	<b>3,144,669</b>
Income tax expense	11	(1,531,280)	(1,028,201)	(1,470,788)	(969,392)
<b>Profit for the year</b>		<b>2,213,712</b>	<b>2,308,646</b>	<b>2,271,182</b>	<b>2,175,277</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Fair value loss on debt financial assets at fair value through other comprehensive income (net of tax)		(626,729)	(172,561)	(626,729)	(172,561)
<b>Total other comprehensive income</b>		<b>(626,729)</b>	<b>(172,561)</b>	<b>(626,729)</b>	<b>(172,561)</b>
<b>Total comprehensive income for the year</b>		<b>1,586,983</b>	<b>2,136,085</b>	<b>1,644,453</b>	<b>2,002,716</b>
Earnings per share (basic and diluted) (Kshs)	12	1.72	1.79	1.76	1.69




**Statement of financial position**

		Consolidated		Bank	
	Notes	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
<b>Assets</b>					
Cash and balances with CBK	13	8,992,039	8,212,917	8,992,039	8,212,917
Balances due from banking institutions	14(a)	5,589,075	4,287,227	5,589,075	4,287,227
Government securities:					
-At amortised cost	15	14,074,248	13,584,768	14,063,735	13,573,762
-At fair value through profit or loss	15	853,628	1,568,955	853,628	1,568,955
-At fair value through other comprehensive income	15	10,826,810	9,546,922	10,826,810	9,546,922
Other investments	19	-	1,355,980	-	1,355,980
Current income tax		8,702	3,336	-	-
Other assets	18	1,794,011	1,006,508	1,763,001	968,371
Loans and advances to customers	16	81,380,510	66,901,824	81,380,510	66,901,824
Investment in subsidiary	20	-	-	10,000	10,000
Investment properties	21	28,600	23,400	28,600	23,400
Property and equipment	22	2,132,510	2,061,977	2,132,105	2,061,386
Intangible assets	23	298,282	326,111	291,625	315,251
Right of use of assets	33	635,330	919,407	635,330	919,407
Prepaid operating leases	24	127,916	132,553	127,916	132,553
Deferred income tax	28	1,771,452	1,805,110	1,771,064	1,805,110
<b>Total assets</b>		<b>128,513,113</b>	<b>111,736,995</b>	<b>128,465,438</b>	<b>111,683,065</b>
<b>Liabilities and shareholders' funds</b>					
<b>Liabilities</b>					
Customer deposits	25	88,903,786	81,911,522	89,343,232	82,430,537
Short term borrowings CBK		2,997,544	-	2,997,544	-
Balances due to banking institutions	14(b)	6,419,589	2,281,200	6,419,589	2,281,200
Provisions	27(a)	370,179	549,497	370,179	549,497
Other liabilities	27(b)	2,310,002	1,757,549	2,193,476	1,613,430
Borrowings	26	10,532,651	8,241,794	10,532,651	8,241,794
Current income tax		25,324	263,148	25,324	263,148
Lease liability	33	843,009	1,139,178	843,009	1,139,178
Deferred income tax	28	-	761	-	-
<b>Total liabilities</b>		<b>112,402,084</b>	<b>96,144,649</b>	<b>112,725,004</b>	<b>96,518,784</b>
<b>Shareholders' funds</b>					
Share capital	29	1,287,108	1,287,108	1,287,108	1,287,108
Share premium		5,874,662	5,874,662	5,874,662	5,874,662
Revaluation surplus		278,424	278,424	278,424	278,424
Fair value reserve		(813,067)	(186,338)	(813,067)	(186,338)
Retained earnings		6,911,705	6,881,691	6,541,110	6,453,626
Statutory reserve		1,777,283	369,161	1,777,283	369,161
Proposed dividends		794,914	1,087,638	794,914	1,087,638
<b>Total shareholders' funds</b>		<b>16,111,029</b>	<b>15,592,346</b>	<b>15,740,434</b>	<b>15,164,281</b>
<b>Total liabilities and shareholders' funds</b>		<b>128,513,113</b>	<b>111,736,995</b>	<b>128,465,438</b>	<b>111,683,065</b>

The financial statements on pages 10 to 94 were approved for issue by the board of directors on 15<sup>th</sup> March 2023 and were signed on its behalf by:

  
Director

  
Director

**Consolidated statement of changes in equity**

**Year ended 31 December 2021**

**At start of year**

**Comprehensive income**

Profit for the year

**Other comprehensive income**

Fair value loss on financial assets at fair value through

other comprehensive income (net of tax)

Transfer to statutory reserves

**Transaction with owners in their capacity as owners**

Proposed dividend

**At 31 December 2021**

Share capital	Share premium	Revaluation surplus	Fair value reserve	Retained earnings	Proposed Dividend	Statutory reserve	Total
Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
1,287,108	5,874,662	278,424	(13,777)	6,029,844	-	-	13,456,261
-	-	-	-	2,308,646	-	-	2,308,646
-	-	-	(172,561)	-	-	-	(172,561)
-	-	-	-	(369,161)	-	369,161	-
-	-	-	-	(1,087,638)	1,087,638	-	-
1,287,108	5,874,662	278,424	(186,338)	6,881,691	1,087,638	369,161	15,592,346

**Year ended 31 December 2022**

**At start of year**

**Comprehensive income**

Profit for the year

**Other comprehensive income**

Fair value loss on financial assets at fair value through

other comprehensive income (net of tax)

Transfer to statutory reserves

**Transaction with owners in their capacity as owners**

Proposed dividend

Prior period dividend adjustment

Dividend paid

**At 31 December 2022**

Share capital	Share premium	Revaluation surplus	Fair value reserve	Retained earnings	Proposed Dividend	Statutory reserve	Total
Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
1,287,108	5,874,662	278,424	(186,338)	6,881,691	1,087,638	369,161	15,592,346
-	-	-	-	2,213,712	-	-	2,213,712
-	-	-	(626,729)	-	-	-	(626,729)
-	-	-	-	(1,408,122)	-	1,408,122	-
-	-	-	-	(794,914)	794,914	-	-
-	-	-	-	19,338	(19,338)	-	-
-	-	-	-	-	(1,068,300)	-	(1,068,300)
1,287,108	5,874,662	278,424	(813,067)	6,911,705	794,914	1,777,283	16,111,029

**Bank statement of changes in equity**

**Year ended 31 December 2021**

**At start of year**

**Comprehensive income**

Profit for the year

**Other comprehensive income**

Fair value loss on financial assets at fair value through other comprehensive income (net of tax)

Transfer to statutory reserves

**Transaction with owners in their capacity as owners**

Proposed dividend

**At 31 December 2021**

**Year ended 31 December 2022**

**At start of year**

**Comprehensive income**

Profit for the year

**Other comprehensive income**

Fair value loss on financial assets at fair value through other comprehensive income (net of tax)

Transfer to statutory reserves

**Transaction with owners in their capacity as owners**

Proposed dividend

Prior period dividend adjustment

Dividend paid

**At 31 December 2022**

Share capital	Share premium	Revaluati on surplus	Fair value reserve	Retained earnings	Proposed Dividend	Statutory reserve	Total
Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000		Kshs 000	Kshs 000
1,287,108	5,874,662	278,424	(13,777)	5,735,148	-	-	13,161,565
-	-	-	-	2,175,277	-	-	2,175,277
-	-	-	(172,561)	-	-	-	(172,561)
-	-	-	-	(369,161)	-	369,161	-
-	-	-	-	(1,087,638)	1,087,638	-	-
1,287,108	5,874,662	278,424	(186,338)	6,453,626	1,087,638	369,161	15,164,281
1,287,108	5,874,662	278,424	(186,338)	6,453,626	1,087,638	369,161	15,164,281
-	-	-	-	2,271,182	-	-	2,271,182
-	-	-	(626,729)	-	-	-	(626,729)
-	-	-	-	(1,408,122)	-	1,408,122	-
-	-	-	-	(794,914)	794,914	-	-
-	-	-	-	19,338	(19,338)	-	-
-	-	-	-	-	(1,068,300)	-	(1,068,300)
1,287,108	5,874,662	278,424	(813,067)	6,541,110	794,914	1,777,283	15,740,434



**Statement of cash flows**

		<b>Consolidated</b>		<b>Bank</b>	
		<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Notes</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>Cash flows from operating activities</b>					
<b>Cash used in operations</b>	31(a)	(12,690,357)	(9,665,895)	(12,716,232)	(9,659,402)
Interest received		12,419,686	11,156,351	12,419,686	11,156,351
Interest paid		(3,891,586)	(3,097,879)	(3,933,083)	(3,138,199)
Tax paid		(1,740,942)	(1,175,209)	(1,674,465)	(1,141,382)
Net cashflows from operating activities		(5,903,199)	(2,782,632)	(5,904,094)	(2,782,632)
<b>Cash flows from investing activities</b>					
Purchase of intangible assets	23	(100,430)	(64,351)	(100,430)	(64,351)
Purchase of property and equipment	22	(480,149)	(280,650)	(479,254)	(280,650)
Net cash flows from investing activities		(580,579)	(345,001)	(579,684)	(345,001)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	26	6,763,878	7,925,612	6,763,878	7,925,612
Repayment of borrowing	26	(1,475,476)	(2,695,779)	(1,475,476)	(2,695,779)
Payment of principal portion of lease liabilities	33	(548,732)	(541,714)	(548,732)	(541,714)
Dividends paid		(1,068,300)	-	(1,068,300)	-
Net cash flows from financing activities		3,671,370	4,688,119	3,671,370	4,688,119
(Decrease)/ increase in cash and cash equivalents		(2,812,408)	1,560,486	(2,812,408)	1,560,486
Cash and cash equivalents at start of the year		5,966,596	4,406,110	5,966,596	4,406,110
Cash and cash equivalents at end year	31(b)	3,154,188	5,966,596	3,154,188	5,966,596



## Notes

### 1 General information

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

The address of its registered office is set out on page 1.

### 2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented on these financial statements, unless otherwise stated.

#### (a) Basis of preparation

The financial statements of the Bank and Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act, 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (i) Basis of measurement

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

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

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

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

#### (ii) Use of estimates

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

## Notes (continued)

### 2 Significant accounting policies (continued)

#### (a) Basis of preparation (continued)

##### Changes in accounting policy and disclosures

##### (i) New and amended standards effective and adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2022. These standards and amendments did not have a material impact on the financial statements.

Title	Key requirements	Effective Date
Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.	Annual periods beginning on or after 1 January 2022
Amendment to IFRS 3, 'Business combinations'  Asset or liability in a business combination clarity	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.  In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Leases', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	Annual periods beginning on or after 1 January 2022
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The March 2021 amendment will only be available if an entity chose to apply the May 2020 optional practical expedient.	Annual periods beginning on or after 1 April 2021

**Notes (continued)**

**2 Significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**Changes in accounting policy and disclosures**

*(i) New and amended standards effective and adopted by the Group*

<b>Title</b>	<b>Key requirements</b>	<b>Effective Date</b>
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	Annual periods beginning on or after 1 January 2022
<i>Annual improvements cycle 2018 -2020</i>	<p>These amendments include minor changes to:</p> <ul style="list-style-type: none"> <li>IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS.</li> <li>IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.</li> <li>IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.</li> </ul>	Annual periods beginning on or after 1 January 2022

None of these amendments have had a significant impact on the financial statement

**Notes (continued)**

**2 Significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**Changes in accounting policy and disclosures**

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

<b>Title</b>	<b>Key requirements</b>	<b>Effective Date</b>
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.	Annual periods beginning on or after 1 January 2023
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023. Earlier application is permitted.
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.	Annual periods beginning on or after 1 January 2023. Earlier application is permitted.
IFRS 17, Insurance contracts Amendments	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.	Annual periods beginning on or after 1 January 2023

The Directors do not plan to apply the above standards until they become effective. Based on their assessment of the potential impact of application of the above, they don't expect a material impact on the Bank's financial statements.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (b) Consolidation

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

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

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

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

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

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

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

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

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

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

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

#### (i) Changes in the Group's ownership interests in existing subsidiaries

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

## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (b) Consolidation (continued)

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

#### (c) Investment in subsidiary

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

#### (d) Interest income and expense recognition

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

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

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

#### (e) Fees and commission income

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

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



## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (f) Net trading income

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

#### (g) Foreign currency translation

##### (i) Functional and presentation currency

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

##### (ii) Transactions and balances

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

#### (h) Financial instruments

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

- i) Classification of financial instruments;
- ii) Initial and subsequent measurement of financial instruments;
- iii) Modification and derecognition of financial instruments; and
- iv) Impairment of financial assets.

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

The Group classifies its financial assets into the following categories:

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

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

## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (h) Financial instruments (continued)

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

#### (i) Financial assets

##### *Recognition and Subsequent measurement*

#### (a) Debt instruments

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

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

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

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

- **Amortised cost:** assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowances. Interest income from financial assets is included in "interest income" using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net gains on disposal of financial instruments". Interest income from the instruments is included in "interest income" using the effective interest rate.
- **Financial assets at fair value through profit or loss (FVTPL):** Financial assets with contractual cash flows that are not SPPI; or/and held in a business model other than held to collect contractual cash flows or held to collect and sell; or designated at FVTPL using the fair value option are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 4.4- Fair value of financial instruments.

## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (h) Financial instruments (continued)

##### Financial assets (continued)

##### *Recognition and Subsequent measurement (continued)*

##### Debt instruments (continued)

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

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

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

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

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

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

## Notes (Continued)

### 2 Significant accounting policies (continued)

#### (h) Financial instruments (continued)

##### Financial assets (continued)

##### Modification of loans

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

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

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

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

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

**Noted (continued)**

**2 Significant accounting policies (continued)**

**(h) Financial instruments (continued)**

**Financial assets (continued)**

**Derecognition other than on a modification**

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

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

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

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

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

**Reposessed collateral**

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

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

## Notes (continued)

### 2 Significant accounting policies (continued)

#### (h) Financial instruments (continued)

##### (ii) Financial liabilities

###### *Classification and subsequent measurement*

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

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

###### *Derecognition of financial liabilities*

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

###### *Financial guarantee contracts and loan commitments*

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

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

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

**Notes (continued)**

**2 Significant accounting policies (continued)**

**(h) Financial instruments (continued)**

**(iii) Offsetting financial instruments**

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

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

**(j) Borrowings**

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

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

**(k) Property and equipment**

Property and equipment are stated at cost (or as professionally revalued from time to time as in the case of Freehold land and buildings) less accumulated depreciation and any accumulated impairment losses. Any surplus arising on revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve account. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. The Group's policy is to professionally revalue freehold land and buildings at least once every five years. The last valuation was done on 31 December 2019. The valuation considered the highest and best use of the property. The basis of valuation for freehold land and buildings is open market value.

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

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

Freehold land is not depreciated.

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

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

## Notes (continued)

### 2 Significant accounting policies (continued)

#### (l) Intangible assets

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

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. During development of these software products, direct costs such as the software development employee costs and an appropriate portion of relevant overheads are recorded as work in progress and amortised from the point at which the asset is ready for use.

Computer software development costs recognised as assets are amortised over an estimated useful life of three to eight years. Costs associated with the maintenance of computer software are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### Impairment of tangible and intangible assets

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

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

#### (m) Investment properties

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

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



## **Notes (continued)**

### **2 Significant accounting policies (continued)**

#### **(n) Investment properties (continued)**

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

#### **(o) Non-current assets held for sale**

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

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

#### **(p) Income tax**

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

##### **(i) Current income tax**

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

##### **(ii) Deferred income tax**

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

## **Notes (continued)**

### **2 Significant accounting policies (continued)**

#### **(p) Income tax (continued)**

##### **(ii) Deferred income tax (continued)**

###### **Current and deferred income tax for the year**

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

#### **(q) Provisions**

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

##### **Contingent liabilities**

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

##### **Statutory reserve**

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

## Notes (continued)

### 2 Significant accounting policies (continued)

#### Leases

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

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

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

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

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

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

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

## Notes (continued)

### 2 Significant accounting policies (continued)

#### (t) Cash and cash equivalents

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

#### (u) Employee benefit costs

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

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

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

#### (v) Sale and repurchase agreements

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

#### (w) Operating segments

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

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

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

#### (x) Comparatives

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

## Notes (continued)

### 3 Critical accounting estimates and judgements

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

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

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

#### *Critical accounting estimates and assumptions*

##### (a) Measurement of expected credit loss allowance

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

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

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

##### (b) Income taxes

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

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

- Whether, and how much, to provide for the potential exposure of each litigation and/or claim, disclose or not disclose certain exposures;
- Whether the Bank is reasonably certain to exercise extension of its leases;
- Whether rent concessions result to new leases or a discount on the existing leases;
- The classification of joint arrangements;
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding; and
- the classification of financial assets.

## Notes (continued)

### 4 Financial Risk Management disclosures

#### Risk management framework

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

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

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

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

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

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

#### 4.1 Credit risk

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

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

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

## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1 Credit risk (continued)

##### Management of credit risk

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

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the board of directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Developing and maintaining the group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- Varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews by credit department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the group credit committee on the credit quality of local portfolios and appropriate corrective action is taken.

Providing advice, guidance and specialist skills to branches to promote best practice throughout the group in the management of credit risk.

##### Credit risk measurement

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

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

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

## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1 Credit risk (continued)

##### Credit risk measurement (continued)

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

##### 4.1.1 Loans and advances

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

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

##### (i) *Significant Increase in credit risk (SICR)*

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

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

##### Quantitative criteria

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

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



## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1.1 Loans and advances (continued)

##### *Significant Increase in credit risk (SICR) (continued)*

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

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

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

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

##### Qualitative criteria

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

1. Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
2. Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
3. Changes in the Group's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the Group's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).

## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1.1 Loans and advances (continued)

##### *Significant Increase in credit risk (SICR) (continued)*

##### **Qualitative criteria (continued)**

4. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
5. Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default; or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
6. Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).
7. Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

#### **(ii) Definition of default and credit-impaired assets**

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

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

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

## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1.1 Loans and advances (continued)

##### *Significant Increase in credit risk (SICR) (continued)*

##### *Definition of default and credit-impaired assets (continued)*

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

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

##### 90-day rebuttable presumption

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

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

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

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

## Notes (continued)

### 4 Financial Risk Management disclosures (continued)

#### 4.1.1 Loans and advances (continued)

##### *Significant Increase in credit risk (SICR) (continued)*

##### *Measuring expected credit loss – inputs, assumptions and estimation techniques*

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

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

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

- For amortizing products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/refinance assumptions are also incorporated.
- For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.
- The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

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

**Notes (continued)**

**4 Financial Risk Management disclosures (continued)**

**4.1.1 Loans and advances (continued)**

***Significant Increase in credit risk (SICR) (continued)***

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

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

**Forward-looking information incorporated in the ECL models**

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

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

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

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

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

**Grouping of instruments for losses measured on a collective basis**

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

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

**Notes (continued)**

**4 Financial Risk Management disclosures (continued)**

**4.1.1 Loans and advances (continued)**

***Significant Increase in credit risk (SICR) (continued)***

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

**Write-off policy**

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

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

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

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

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

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

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

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

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

**Notes (continued)**

**4 Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**4.1.1 Loans and advances (continued)**

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

**Risk limit control and mitigation policies**

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

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

	<b>Exposure 2022 Shs'000</b>	<b>Exposure 2021 Shs'000</b>
<b>On – balance sheet items</b>		
Balances with Central Bank of Kenya	5,007,337	4,252,348
Balances due from other banking institutions	5,589,075	4,287,227
Government securities at amortised cost	14,074,248	13,584,768
Government securities at fair value through profit or loss	853,628	1,568,955
Government securities FVOCI	10,826,810	9,546,922
Loans and advances to customers	81,380,510	66,901,824
Other investments	-	1,355,980
Other assets	1,436,023	820,057
	<b>119,167,631</b>	<b>102,318,081</b>
<b>Off-balance sheet items</b>		
Guarantees and letters of credit	9,868,372	8,656,566
	<b>129,036,003</b>	<b>110,974,647</b>

The table above represents the worst-case scenarios of credit exposure for 31 December 2022 and 31 December 2021, without taking into account any collateral held or other credit enhancements attached.

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**4.1.1 Loans and advances (continued)**

**4 Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**4.1.1 Loans and advances (continued)**

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

Loans and advances to customers comprise of 63% (2021 - 62 %) of the total maximum exposure.

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

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

	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>Loans and advances to customers</b>		
<b>Gross loans and advances to customers</b>	<b>85,807,273</b>	<b>71,974,208</b>
Of which stage 1 and 2	73,376,033	60,917,959
Of which stage 3	12,431,240	11,056,249
<b>Expected credit loss provisions</b>	<b>4,426,763</b>	<b>5,072,384</b>
Of which stage 1 and 2	1,335,799	1,339,188
Of which stage 3	3,090,964	3,733,196
<b>Net loans and advances to customers</b>	<b>81,380,510</b>	<b>66,901,824</b>
Of which stage 1 and 2	72,040,234	59,578,771
Of which stage 3	9,340,276	7,323,053

The subsequent tables within this note include the movement in gross loans and allowances excluding interest accrued on fully impaired loans and advances of Kshs 1.38 billion (2021: Kshs 1.55 billion )



**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**4.1.1 Loans and advances (continued)**

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

	Term loans		Mortgage		Overdraft and credit cards		Total	Off Balance Sheet
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
<b>Loans and advances to customers</b>								
<b>Gross loans and advances to customers</b>	69,764,759	12,139,725	3,902,789	85,807,273	3,253,832			
Of which stage 1 and 2	60,302,916	10,348,802	2,724,315	73,376,033	3,253,832			
Of which stage 3	9,461,843	1,790,923	1,178,474	12,431,240	-			
<b>Expected credit loss provisions</b>	4,014,561	45,629	366,573	4,426,763	32,987			
Of which stage 1 and 2	1,247,441	17,633	70,725	1,335,799	32,987			
Of which stage 3	2,767,120	27,996	295,848	3,090,964	-			
<b>Net loans and advances to customers</b>	65,750,198	12,094,096	3,536,216	81,380,510	-			
Of which stage 1 and 2	59,055,475	10,331,169	2,653,590	72,040,234	-			
Of which stage 3	6,694,723	1,762,927	882,626	9,340,276	-			
<b>2021</b>								
<b>Loans and advances to customers</b>								
<b>Gross loans and advances to customers</b>	59,693,703	9,074,329	3,206,176	71,974,208	1,742,217			
Of which stage 1 and 2	50,766,700	7,487,440	2,663,819	60,917,959	1,742,217			
Of which stage 3	8,927,003	1,586,889	542,357	11,056,249	-			
<b>Expected credit loss provisions</b>	4,579,090	214,022	279,272	5,072,384	553			
Of which stage 1 and 2	1,225,536	56,848	56,804	1,339,188	553			
Of which stage 3	3,353,554	157,174	222,468	3,733,196	-			
<b>Net loans and advances to customers</b>	55,114,613	8,860,307	2,926,904	66,901,824	1,741,664			
Of which stage 1 and 2	49,541,164	7,430,592	2,607,015	59,578,771	1,741,664			
Of which stage 3	5,573,449	1,429,715	319,889	7,323,053	-			

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

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

<b>31 December 2022</b>	<b>Stage 1 12-month ECL Kshs 000</b>	<b>Stage 2 Lifetime ECL Kshs 000</b>	<b>Stage 3 Lifetime ECL Kshs 000</b>	<b>Total Kshs 000</b>
<b>Loss allowance as at 1 January 2022</b>	565,641	773,547	3,733,196	5,072,384
Changes in the loss allowance				
Transfer to stage 1	268,552	(188,407)	(80,145)	-
Transfer to stage 2	(13,094)	104,358	(91,264)	-
Transfer to stage 3	(14,001)	(223,777)	237,778	-
New financial assets originated or purchased	572,311	232,444	605,093	1,409,848
Financial assets that have been derecognised	(222,152)	(311,604)	(174,972)	(708,728)
Changes in models/risk parameters	(39,534)	(234,855)	20,565	(253,824)
Foreign exchange and other movements	(241,456)	307,826	(66,370)	-
Write-offs	-	-	(1,092,917)	(1,092,917)
<b>Loss allowance as at 31 December 2022</b>	<b>876,267</b>	<b>459,532</b>	<b>3,090,964</b>	<b>4,426,763</b>
<b>31 December 2021</b>	<b>Stage 1 12-month ECL Kshs 000</b>	<b>Stage 2 Lifetime ECL Kshs 000</b>	<b>Stage 3 Lifetime ECL Kshs 000</b>	<b>Total Kshs 000</b>
<b>Loss allowance as at 1 January 2021</b>	685,193	272,968	3,762,768	4,720,929
Changes in the loss allowance				
Transfer to stage 1	113,303	(69,551)	(43,752)	-
Transfer to stage 2	(25,378)	95,632	(70,254)	-
Transfer to stage 3	(12,703)	(69,561)	82,264	-
New financial assets originated or purchased	367,837	280,774	950,753	1,599,364
Financial assets that have been derecognised	(226,785)	(78,371)	(746,956)	(1,052,112)
Changes in models/risk parameters	(262,871)	282,296	103,823	123,248
Foreign exchange and other movements	(72,955)	59,360	13,595	-
Write-offs	-	-	(319,045)	(319,045)
<b>Loss allowance as at 31 December 2021</b>	<b>565,641</b>	<b>773,547</b>	<b>3,733,196</b>	<b>5,072,384</b>

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

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

<b>Term loans</b>	<b>Stage 1 Kshs 000</b>	<b>Stage 2 Kshs 000</b>	<b>Stage 3 Kshs 000</b>	<b>Total Kshs 000</b>
<b>Loans and advances as at 1 January 2022</b>	<b>44,801,645</b>	<b>5,457,176</b>	<b>9,434,882</b>	<b>59,693,703</b>
Changes in the gross loans				
– Transfer to stage 1	1,544,640	(1,267,859)	(276,781)	-
– Transfer to stage 2	(1,301,613)	1,672,250	(370,637)	-
– Transfer to stage 3	(1,178,824)	(1,465,581)	2,644,405	-
Changes in models/risk parameters	(7,110,671)	(621,593)	320,159	(7,412,105)
New financial assets originated or purchased	34,671,792	1,526,213	926,481	37,124,486
Financial assets that have been derecognised	(14,907,484)	(1,517,174)	(3,216,667)	(19,641,325)
<b>Loans and advances as at 31 December 2022</b>	<b>56,519,485</b>	<b>3,783,432</b>	<b>9,461,842</b>	<b>69,764,759</b>
<b>Mortgage loans</b>				
<b>Loans and advances as at 1 January 2022</b>	<b>6,904,527</b>	<b>582,913</b>	<b>1,586,889</b>	<b>9,074,329</b>
Changes in the gross loans				
– Transfer to stage 1	132,503	(54,308)	(78,195)	-
– Transfer to stage 2	(45,689)	139,335	(93,646)	-
– Transfer to stage 3	(61,371)	(23,163)	84,534	-
Changes in models/risk parameters	(1,043,627)	(37,075)	392,715	(687,987)
New financial assets originated or purchased	5,132,430	530,418	24,295	5,687,143
Financial assets that have been derecognised	(1,319,627)	(488,465)	(125,668)	(1,933,760)
<b>Loans and Advances as at 31 December 2022</b>	<b>9,699,146</b>	<b>649,655</b>	<b>1,790,924</b>	<b>12,139,725</b>

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**Overdrafts and credit cards**

**Loans and advances as at 1 January 2022**

Changes in the gross loans

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3

Changes in models/risk parameters

New financial assets originated or purchased

Financial assets that have been derecognised

**Loans and Advances as at 31 December 2022**

	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
	1,998,522	665,296	542,358	3,206,176
	172,475	(168,518)	(3,957)	-
	(63,515)	66,710	(3,195)	-
	(67,788)	(455,621)	523,409	-
	77,097	84,247	(41,074)	120,270
	828,563	33,420	249,528	1,111,511
	(409,868)	(36,705)	(88,595)	(535,168)
	2,535,486	188,829	1,178,474	3,902,789

**Off Balance Sheet Facilities**

**Loans and advances as at 1 January 2022**

Changes in the gross loans

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3

Changes in models/risk parameters

New financial assets originated or purchased

Financial assets that have been derecognised

**Loans and Advances as at 31 December 2022**

	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
	1,742,217	-	-	1,742,217
	-	-	-	-
	-	-	-	-
	-	-	-	-
	780,381	-	-	780,381
	2,074,122	-	-	2,074,122
	(1,342,888)	-	-	(1,342,888)
	3,253,832	-	-	3,253,832

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

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

Term loans 2022	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
<b>Loss allowance – Loans and advances to customers at amortised cost</b>				
<b>Loss allowance as at 1 January 2022</b>	546,554	678,982	3,353,554	4,579,090
Changes in the loss allowance				
– Transfer to stage 1	252,996	(174,633)	(78,363)	-
– Transfer to stage 2	(12,649)	87,336	(74,687)	-
– Transfer to stage 3	(12,792)	(193,477)	206,269	-
– Write-offs	-	-	(1,042,959)	(1,042,959)
New financial assets originated or purchased	527,017	218,819	501,604	1,247,440
Financial assets that have been derecognised	(184,263)	(276,985)	(186,796)	(648,044)
Changes in models/risk parameters	(36,247)	(226,434)	141,715	(120,966)
Foreign exchange and other movements	(227,556)	280,774	(53,218)	-
<b>Loss allowance as at 31 December 2022</b>	<b>853,060</b>	<b>394,382</b>	<b>2,767,119</b>	<b>4,014,561</b>
<b>2021</b>				
<b>Loss allowance as at 1 January 2021</b>	594,489	224,976	3,090,481	3,909,946
Changes in the loss allowance				
– Transfer to stage 1	104,015	(62,492)	(41,523)	-
– Transfer to stage 2	(22,589)	89,449	(66,860)	-
– Transfer to stage 3	(11,614)	(63,604)	75,218	-
– Write-offs	-	-	(315,862)	(315,862)
New financial assets originated or purchased	322,026	224,398	958,570	1,504,994
Financial assets that have been derecognised	(134,961)	(48,195)	(573,393)	(756,549)
Changes in models/risk parameters	(235,001)	277,803	193,759	236,561
Foreign exchange and other movements	(69,811)	36,647	33,164	-
<b>Loss allowance as at 31 December 2021</b>	<b>546,554</b>	<b>678,982</b>	<b>3,353,554</b>	<b>4,579,090</b>

Notes (continued)

4. Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

Mortgage loans

2022  
Loss allowance – Loans and advances to customers at amortised cost

Loss allowance as at 1 January 2022

Changes in the loss allowance

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3
- Write-offs

New financial assets originated or purchased  
Financial assets that have been derecognised  
Changes in models/risk parameters  
Foreign exchange and other movements

Loss allowance as at 31 December 2022

	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 1 January 2022	2,752	54,096	157,174	214,022
Changes in the loss allowance				
– Transfer to stage 1	1,656	(1,500)	(156)	-
– Transfer to stage 2	(22)	16,048	(16,026)	-
– Transfer to stage 3	(10)	(1,343)	1,353	-
– Write-offs	-	-	(774)	(774)
New financial assets originated or purchased	7,505	3,232	-	10,737
Financial assets that have been derecognised	(703)	(50,389)	-	(51,092)
Changes in models/risk parameters	(285)	1,424	(128,403)	(127,264)
Foreign exchange and other movements	(1,624)	(13,205)	14,829	-
Loss allowance as at 31 December 2022	9,269	8,363	27,997	45,629

2021

Loss allowance as at 1 January 2021

Changes in the loss allowance

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3
- Write-offs

New financial assets originated or purchased  
Financial assets that have been derecognised  
Changes in models/risk parameters  
Foreign exchange and other movements

Loss allowance as at 31 December 2021

	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Loss allowance as at 1 January 2021	11,803	25,679	409,189	446,671
Changes in the loss allowance				
– Transfer to stage 1	5,536	(5,163)	(373)	-
– Transfer to stage 2	(268)	268	-	-
– Transfer to stage 3	-	-	-	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	2,052	51,732	12,826	66,610
Financial assets that have been derecognised	(467)	(22,010)	(165,751)	(188,228)
Changes in models/risk parameters	(19,017)	1,141	(93,155)	(111,031)
Foreign exchange and other movements	3,113	2,449	(5,562)	-
Loss allowance as at 31 December 2021	2,752	54,096	157,174	214,022

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**Overdraft and credit cards**

**2022**

**Loss allowance – Loans and advances to customers at amortised cost**

**Loss allowance as at 1 January 2022**

Changes in the loss allowance

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3
- Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

Foreign exchange and other movements

**Loss allowance as at 31 December 2022**

**Loss allowance as at 1 January 2021**

Changes in the loss allowance

- Transfer to stage 1
- Transfer to stage 2
- Transfer to stage 3
- Write-offs

New financial assets originated or purchased

Financial assets that have been derecognised

Changes in models/risk parameters

**Foreign exchange and other movements**

**Loss allowance as at 31 December 2021**

	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 1 January 2022	16,336	40,468	222,468	279,272
Changes in the loss allowance				
– Transfer to stage 1	13,899	(12,273)	(1,626)	-
– Transfer to stage 2	(423)	974	(551)	-
– Transfer to stage 3	(913)	(24,926)	25,839	-
– Write-offs	-	-	(49,185)	(49,185)
New financial assets originated or purchased	22,085	10,393	127,413	159,891
Financial assets that have been derecognised	(1,545)	(2,864)	(1,228)	(5,637)
Changes in models/risk parameters	(8,333)	(5,815)	(3,620)	(17,768)
Foreign exchange and other movements	(12,563)	36,225	(23,662)	-
<b>Loss allowance as at 31 December 2022</b>	<b>28,543</b>	<b>42,182</b>	<b>295,848</b>	<b>366,573</b>
<b>Loss allowance as at 1 January 2021</b>	<b>78,899</b>	<b>22,312</b>	<b>263,100</b>	<b>364,311</b>
Changes in the loss allowance				
– Transfer to stage 1	3,171	(1,846)	(1,325)	-
– Transfer to stage 2	(2,516)	5,419	(2,903)	-
– Transfer to stage 3	(617)	(3,720)	4,337	-
– Write-offs	-	-	-	-
New financial assets originated or purchased	1,695	4,929	13,123	19,747
Financial assets that have been derecognised	(12,725)	(9,665)	(54,818)	(77,208)
Changes in models/risk parameters	(51,533)	22,892	1,063	(27,578)
<b>Foreign exchange and other movements</b>	<b>(38)</b>	<b>147</b>	<b>(109)</b>	<b>-</b>
<b>Loss allowance as at 31 December 2021</b>	<b>16,336</b>	<b>40,468</b>	<b>222,468</b>	<b>279,272</b>

**Notes (continued)**

**4.1 Credit risk (continued)**

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

**Other financial assets**

	Cash & Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Amortized cost	Total
<b>Other financial assets</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Gross carrying amount as at 1 January 2022</b>	8,212,917	4,287,227	9,546,922	1,568,955	13,584,768	37,200,789
Changes in the loss allowance						
– Transfer to stage 1	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-
– Write-offs	-	-	-	-	-	-
New financial assets originated or purchased	779,122	1,301,848	1,279,888	-	489,480	3,850,338
Financial assets that have been derecognised	-	-	-	(715,327)	-	(715,327)
<b>Gross carrying amount as at 31 December 2022</b>	<b>8,992,039</b>	<b>5,589,075</b>	<b>10,826,810</b>	<b>853,628</b>	<b>14,074,248</b>	<b>40,335,800</b>

	Cash & Bank Balances	Loans to Banks	Financial assets FVTOCI	Financial assets FVTPL	Financial assets Amortized cost	Total
<b>Other financial assets</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Gross carrying amount as at 1 January 2021</b>	8,879,521	819,406	7,033,006	1,066,797	8,901,395	26,700,125
Changes in the loss allowance						
– Transfer to stage 1	-	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-	-
– Write-offs	-	-	-	-	-	-
New financial assets originated or purchased	-	3,467,821	2,513,916	502,158	4,683,373	11,167,268
Financial assets that have been derecognised	(666,604)	-	-	-	-	(666,604)
<b>Gross carrying amount as at 31 December 2021</b>	<b>8,212,917</b>	<b>4,287,227</b>	<b>9,546,922</b>	<b>1,568,955</b>	<b>13,584,768</b>	<b>37,200,789</b>

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



#### 4.1 Credit risk (continued)

##### 4.1.1 Loans and advances (continued)

###### Modified financial assets

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

Financial assets (with loss allowance based on lifetime ECL) modified during the period	Year ended 2022 Kshs 000	Year ended 2021 Kshs 000
Gross carrying amount before modification	2,699,602	5,216,798
Loss allowance before modification	(292,993)	(622,560)
Net carrying amount before modification	2,406,609	4,594,238
Net modification gain	2,727	38,129

###### Collateral management

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

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

There has been no change in collateral management in the year

###### Valuation of collateral

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

## **Notes (continued)**

### **4. Financial Risk Management disclosures (continued)**

#### **4.1 Credit risk (continued)**

##### **4.1.1 Loans and advances (continued)**

###### **Fair value of collateral held**

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

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

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually. At 31 December 2022 the net carrying amount of loans and advances was Kshs 81,380,510 (2021 – Kshs 66,901,824) and the value of the respective collateral was KShs 183,161,384,000 (2021 – Kshs 125,679,423,000 ).

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2021 and 2022.

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

The Bank holds financial instruments, financial collateral and cash collateral against its loans and advances measured at amortised cost. The Bank is entitled to offset these through enforceable master netting arrangements or similar agreements, in case of default. As at 31 December 2022 ( 2021:Nil), no financial assets or financial liabilities had been offset and presented net on the statement of financial position. No collateral had been pledged for deposits held.

##### **4.1.2 Other non-loan financial assets**

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

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

**Notes (continued)**

**4. Financial Risk Management disclosures (continued)**

**4.1 Credit risk (continued)**

**4.1.3 Concentration of risk**

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

**(i) Advances to customers- Group and Bank**

	<b>2022</b>		<b>2021</b>	
	<b>Kshs 000</b>	<b>%</b>	<b>Kshs 000</b>	<b>%</b>
Manufacturing	924,168	1	910,539	1
Wholesale and retail	34,045,231	42	30,873,749	45
Transport and communication	5,365,195	7	5,446,464	8
Agriculture	4,610,284	6	2,941,432	4
Business services	2,895,405	4	2,189,765	3
Building and construction	3,351,216	4	3,353,511	5
Other	30,189,011	36	21,186,364	34
	<b>81,380,510</b>	<b>100</b>	<b>66,901,824</b>	<b>100</b>

**(ii) Customer deposits**

Central and local Government	82,262	-	70,872	-
Co-operative societies	538,485	1	495,360	1
Insurance companies	416,646	-	371,814	-
Private enterprises & individuals	87,693,876	99	80,805,507	99
Non-profit institutions	172,517	-	167,969	-
	<b>88,903,786</b>	<b>100</b>	<b>81,911,522</b>	<b>100</b>

**(iii) Off balance sheet items**

Letters of credit and guarantees	9,868,372	100	8,656,566	100
	<b>9,868,372</b>	<b>100</b>	<b>8,656,566</b>	<b>100</b>

## Notes (continued)

### 4. Financial Risk Management disclosures (continued)

#### Incorporation of forward-looking information

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

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

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2022 for the years 2022 to 2026

	2022	2023	2024	2025	2026
<b>Inflation</b>					
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3
<b>Exchange rates</b>	0.5	0.5	0.5	0.5	0.5
- Base scenario	0.2	0.2	0.2	0.2	0.2
- Range of upside scenarios	0.3	0.3	0.3	0.3	0.3
- Range of downside scenarios	0.5	0.5	0.5	0.5	0.5
<b>Benchmark interest rates</b>	0.2	0.2	0.2	0.2	0.2
- Base scenario	0.3	0.3	0.3	0.3	0.3
- Range of upside scenarios	0.5	0.5	0.5	0.5	0.5
- Range of downside scenarios	0.2	0.2	0.2	0.2	0.2
<b>Reserves</b>	0.3	0.3	0.3	0.3	0.3
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3

#### Sensitivity analysis

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

Set out below are the changes to the ECL as at 31 December 2022 that would result from reasonably possible changes in this parameter from actual assumptions used in the Group's economic variable assumptions;

Interest rates	-5%	5%
	KShs000'	KShs000'
Term loans	5,948	2,644
Off Balance Sheet Facilities	49	22
Mortgage Facilities	68	30
Overdrafts and credit cards	548	244

## Notes (continued)

### 4. Financial Risk Management disclosures (continued)

#### 4.2 Liquidity risk

##### 4.2.1 Management of liquidity risk

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

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

Liquidity risk is addressed through the following measures:

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

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

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

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

#### Exposure to liquidity risk

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

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

	2022	2021
At 31 December	34.6%	43.4%
Average for the year	38.5%	37.1%
Maximum for the year	45.2%	43.4%
Minimum for the year	32.9%	29.8%

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

**Notes (continued)**

**4. Financial risk management disclosures (continued)**

**4.2 Liquidity risk (continued)**

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

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

<b>At 31 December 2022</b>	<b>Upto 1 month Kshs 000</b>	<b>1 - 3 months Kshs 000</b>	<b>3 - 12 months Kshs 000</b>	<b>1 - 5 years Kshs 000</b>	<b>Over 5 years Kshs 000</b>	<b>Total Kshs 000</b>
Balances due to banks	6,419,589	-	-	-	-	6,419,589
Short term borrowing CBK	2,997,544	-	-	-	-	2,997,544
Customer deposits	46,093,163	10,282,994	34,549,915	163,490	-	91,089,562
Borrowings	-	-	-	9,195,722	3,957,695	13,153,417
Provisions and other liabilities	2,680,180	-	-	-	-	2,680,180
Lease liabilities	1,239,459	-	-	-	-	1,239,459
Capital commitments	-	-	564,700	-	-	564,700
<b>Total financial liabilities</b>	<b>59,429,935</b>	<b>10,282,994</b>	<b>35,114,615</b>	<b>9,359,212</b>	<b>3,957,695</b>	<b>118,144,451</b>
Cash-in hand	3,984,702	-	-	-	-	3,984,702
Balances with CBK	5,007,337	-	-	-	-	5,007,337
Balances due from banks	5,589,075	-	-	-	-	5,589,075
Government securities	19,230,474	497,714	621,745	3,728,007	2,871,028	26,948,968
Loans and advances	6,883,724	6,125,488	5,699,926	44,462,825	41,376,298	104,548,261
Other assets	1,794,011	-	-	-	-	1,794,011
<b>Total financial assets</b>	<b>42,489,323</b>	<b>6,623,202</b>	<b>6,321,671</b>	<b>48,190,832</b>	<b>44,247,326</b>	<b>147,872,354</b>
<b>(Gap)/surplus</b>	<b>(16,940,612)</b>	<b>(3,659,792)</b>	<b>(28,792,944)</b>	<b>38,831,620</b>	<b>40,289,631</b>	<b>29,727,903</b>

Notes (continued)

4. Financial risk management disclosures (continued)

4.2 Liquidity risk (continued)

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

At 31 December 2021	Upto 1 month Kshs 000	1 - 3 months Kshs 000	3 - 12 months Kshs 000	1 - 5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,110,892	8,249,490	17,137,543	11,587,472	-	83,085,397
Borrowings	-	-	-	4,560,795	3,943,903	8,504,698
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,535,628	-	-	-	-	1,535,628
Capital commitments	-	-	154,986	-	-	154,986
<b>Total financial liabilities</b>	<b>51,541,150</b>	<b>8,249,490</b>	<b>17,436,648</b>	<b>16,148,267</b>	<b>3,943,903</b>	<b>97,319,458</b>
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,700,646
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
<b>Total financial assets</b>	<b>34,432,864</b>	<b>4,733,636</b>	<b>7,129,891</b>	<b>39,768,638</b>	<b>43,926,044</b>	<b>129,991,073</b>
(Gap)/surplus	(17,108,286)	(3,515,854)	(10,306,757)	23,620,371	39,982,141	32,671,615

**Notes (continued)**

**4. Financial risk management disclosures (continued)**

**4.2 Liquidity risk (continued)**

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

<b>As at 31 December 2022</b>	<b>Upto 1 month Kshs 000</b>	<b>1 - 3 months KShs'000</b>	<b>3 - 12 months KShs'000</b>	<b>1 - 5 years Kshs 000</b>	<b>Over 5 years KShs'000</b>	<b>Total KShs'000</b>
Balances due to banks	6,419,589	-	-	-	-	6,419,589
Short term borrowing CBK	2,997,544	-	-	-	-	2,997,544
Customer deposits	45,655,011	10,282,994	34,549,915	163,490	-	90,651,410
Borrowings	-	-	-	9,195,722	3,957,695	13,153,417
Provisions and other liabilities	2,563,555	-	-	-	-	2,563,555
Lease liabilities	1,239,459	-	-	-	-	1,239,459
Capital commitments	-	-	564,700	-	-	564,700
<b>Total financial liabilities</b>	<b>58,875,158</b>	<b>10,282,994</b>	<b>35,114,615</b>	<b>9,359,212</b>	<b>3,957,695</b>	<b>117,589,674</b>
Cash-in hand	3,984,702	-	-	-	-	3,984,702
Balances with CBK	5,007,337	-	-	-	-	5,007,337
Balances due from banks	5,589,075	-	-	-	-	5,589,075
Government securities	19,219,962	497,714	621,745	3,728,007	2,871,028	26,938,456
Loans and advances	6,883,725	6,125,488	5,699,926	44,462,825	41,376,298	104,548,262
Other assets	1,763,001	-	-	-	-	1,763,001
<b>Total financial assets</b>	<b>42,447,802</b>	<b>6,623,202</b>	<b>6,321,671</b>	<b>48,190,832</b>	<b>44,247,326</b>	<b>147,830,833</b>
<b>(Gap)/surplus</b>	<b>(16,427,356)</b>	<b>(3,659,792)</b>	<b>(28,792,944)</b>	<b>38,831,620</b>	<b>40,289,631</b>	<b>30,241,159</b>



**Notes (continued)**

**4. Financial risk management disclosures (continued)**

**4.2 Liquidity risk (continued)**

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

<b>As at 31 December 2021</b>	<b>Upto 1 month Kshs 000</b>	<b>1 - 3 months KShs'000</b>	<b>3 - 12 months KShs'000</b>	<b>1 - 5 years Kshs 000</b>	<b>Over 5 years KShs'000</b>	<b>Total KShs'000</b>
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	46,629,907	8,249,490	17,137,543	11,587,472	-	83,604,412
Borrowings	-	-	-	4,560,795	3,943,903	8,504,698
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	-	-	-	1,613,430
Lease liabilities	1,535,628	-	-	-	-	1,535,628
Capital commitments	-	-	154,986	-	-	154,986
<b>Total financial liabilities</b>	<b>52,609,662</b>	<b>8,249,490</b>	<b>17,292,529</b>	<b>16,148,267</b>	<b>3,943,903</b>	<b>98,243,851</b>
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
<b>Total financial assets</b>	<b>34,394,727</b>	<b>4,733,636</b>	<b>7,129,891</b>	<b>39,768,638</b>	<b>43,926,044</b>	<b>129,941,929</b>
<b>(Gap)/surplus</b>	<b>(18,214,935)</b>	<b>(3,515,854)</b>	<b>(10,162,638)</b>	<b>23,620,371</b>	<b>39,982,141</b>	<b>31,698,078</b>

## Notes (continued)

### 4. Financial risk management disclosures (continued)

#### 4.2 Liquidity risk (continued)

##### c) Liquidity risk based on undiscounted cash flows- Group and Bank (continued)

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

	2022 Kshs 000	2021 Kshs 000
(a) Letters of credit, guarantees, acceptances	9,868,372	8,656,566
(b) Operating lease arrangements	843,009	1,139,178
(c) Committed and undrawn facilities	3,691,461	9,186,335
	<u>14,402,842</u>	<u>18,982,079</u>

#### 4.3 Market risk

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

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

##### Management of market risks

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

##### i) Interest rate risk

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

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

Notes (continued)

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

(i) Interest rate risk - Group

31 December 2022	Non-interest bearing Kshs 000	0 – 3 months Kshs 000	4 – 12 months Kshs 000	1-5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
<b>Financial liabilities</b>						
Balances due to banks	-	9,417,133	-	-	-	9,417,133
Customer deposits	55,935,239	-	32,805,057	163,490	-	88,903,786
Borrowings	-	-	-	6,574,956	3,957,695	10,532,651
Provisions and other liabilities	2,680,181	-	116,526	-	-	2,680,181
Lease liabilities	843,009	-	-	-	-	843,009
<b>Total financial liabilities</b>	<b>59,458,429</b>	<b>9,417,133</b>	<b>32,921,583</b>	<b>6,738,446</b>	<b>3,957,695</b>	<b>112,376,760</b>
<b>Financial assets</b>						
Cash-in hand	3,984,702	-	-	-	-	3,984,702
Balances with CBK	5,007,337	-	-	-	-	5,007,337
Balances due from banks	485,424	-	5,103,651	-	-	5,589,075
Government securities	-	1,530,524	497,714	621,745	23,104,702	25,754,685
Loans and advances	-	81,380,510	-	-	-	81,380,510
Other assets	1,794,011	-	-	-	-	1,794,011
<b>Total financial assets</b>	<b>11,271,474</b>	<b>82,911,034</b>	<b>5,601,365</b>	<b>621,745</b>	<b>23,104,702</b>	<b>123,510,320</b>
<b>(Gap)/surplus</b>	<b>(48,186,955)</b>	<b>73,493,901</b>	<b>(27,320,218)</b>	<b>(6,116,701)</b>	<b>19,147,007</b>	<b>11,133,560</b>

**Notes (continued)**

**4. Financial risk management disclosures (continued)**

**4.3 Market risk (continued)**

**(i) Interest rate risk - Group**

<b>31 December 2021</b>	<b>Non-interest bearing Kshs 000</b>	<b>0 – 3 Months Kshs 000</b>	<b>4 – 12 months Kshs 000</b>	<b>1-5 years Kshs 000</b>	<b>Over 5 years Kshs 000</b>	<b>Total Kshs 000</b>
<b>Financial liabilities</b>						
Balances due to banks	-	2,281,200	-	-	-	2,281,200
Customer deposits	44,937,018	8,249,490	17,137,543	11,587,472	-	81,911,523
Borrowings	-	-	-	4,297,891	3,943,903	8,241,794
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
<b>Total financial liabilities</b>	<b>48,239,123</b>	<b>10,530,690</b>	<b>17,281,662</b>	<b>15,885,363</b>	<b>3,943,903</b>	<b>95,880,741</b>
<b>Financial assets</b>						
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,011,007	164,957	73,985	-	9,450,697	24,700,646
Loans and advances	-	66,901,824	-	-	-	66,901,824
Other assets	-	-	1,355,980	-	-	1,355,980
<b>Total financial assets</b>	<b>1,006,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,006,508</b>
<b>(Gap)/surplus</b>	<b>28,517,659</b>	<b>67,066,781</b>	<b>1,429,965</b>	<b>-</b>	<b>9,450,697</b>	<b>106,465,102</b>

Notes (continued)

4. Financial risk management disclosures (continued)

4.3 Market risk (continued)

(i) Interest rate risk - Bank

As at 31 December 2022	Upto 1 month Kshs 000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years Kshs 000	Over 5 years KShs'000	Total KShs'000
Balances due to banks	6,419,589	-	-	-	-	6,419,589
Customer deposits	56,374,685	-	32,805,057	163,490	-	89,343,232
Borrowings	-	-	-	6,574,956	3,957,695	10,532,651
Provisions and other liabilities	2,563,555	-	-	-	-	2,563,555
Lease liabilities	843,009	-	-	-	-	843,009
Total financial liabilities	66,200,838	-	32,805,057	6,738,446	3,957,695	109,702,036
Cash-in hand	3,984,702	-	-	-	-	3,984,702
Balances with CBK	5,007,337	-	-	-	-	5,007,337
Balances due from banks	485,424	-	4,796,563	-	-	5,281,987
Government securities	-	1,530,524	497,714	621,745	23,094,189	25,744,172
Loans and advances	-	81,380,510	-	-	-	81,380,510
Other assets	1,763,001	-	-	-	-	1,763,001
Total financial assets	11,240,464	82,911,034	5,294,277	621,745	23,094,189	123,161,709
(Gap)/surplus	(54,960,374)	82,911,034	(27,510,780)	(6,116,701)	19,136,494	13,459,673

**Notes (continued)**

**4. Financial risk management disclosures (continued)**

**4.3 Market risk (continued)**

**(i) Interest rate risk - Bank**

<b>As at 31 December 2021</b>	<b>Upto 1 month Kshs 000</b>	<b>1 - 3 months KShs'000</b>	<b>3 - 12 months KShs'000</b>	<b>1 - 5 years Kshs 000</b>	<b>Over 5 years KShs'000</b>	<b>Total KShs'000</b>
Balances due to banks	2,281,200	-	-	-	-	2,281,200
Customer deposits	45,456,033	8,249,490	17,137,543	11,587,472	-	82,430,538
Borrowings	-	-	-	7,937,454	304,340	8,241,794
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	-	-	-	1,613,430
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Capital commitments	-	-	154,986	-	-	154,986
<b>Total financial liabilities</b>	<b>51,039,338</b>	<b>8,249,490</b>	<b>17,292,529</b>	<b>19,524,926</b>	<b>304,340</b>	<b>96,410,623</b>
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	27,994,646	22,712,362	66,901,825
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
<b>Total financial assets</b>	<b>34,394,727</b>	<b>4,733,636</b>	<b>7,129,891</b>	<b>27,994,646</b>	<b>32,163,059</b>	<b>106,415,959</b>
<b>(Gap)/surplus</b>	<b>(16,644,611)</b>	<b>(3,515,854)</b>	<b>(10,162,638)</b>	<b>8,469,720</b>	<b>31,858,719</b>	<b>10,005,336</b>

## Notes (continued)

### 4. Financial risk management disclosures (continued)

#### 4.3 Market risk (continued)

##### i) Interest rate risk (continued)

##### Sensitivity analysis

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

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

Assuming no management actions, a 10% appreciation in interest rates would increase net interest income by Shs908 million (2021 – 813 Million ), while a 10% depreciation in interest rated would decrease net interest income by Shs 908 Million (2021 – Shs 813,Million).

##### ii) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily. The table below summarizes the foreign currency exposure as at 31 December 2022 and 31 December 2021:

As at 31 December 2022	USD Kshs 000	GBP Kshs 000	EURO Kshs 000	Total Kshs 000
<b>Financial assets</b>				
Deposits and balances due from banking institutions	529,435	127,543	201,727	858,706
Loans advanced	3,328,637	32,720	25,460	3,386,817
<b>Financial liabilities</b>				
Borrowings	(5,594,877)	-	-	(5,594,877)
<b>Net currency exposure</b>	<b>(1,736,805)</b>	<b>160,263</b>	<b>227,187</b>	<b>(1,349,354)</b>
<b>As at 31 December 2021</b>				
<b>Financial assets</b>				
Deposits and balances due from banking institutions	2,987,994	199,449	187,966	3,375,409
<b>Financial liabilities</b>				
Borrowings	(3,190,131)	-	-	(3,190,131)
<b>Net currency exposure</b>	<b>(202,137)</b>	<b>199,449</b>	<b>187,966</b>	<b>185,278</b>

#### 4. Financial risk management disclosures (continued)

##### 4.3 Market risk (continued)

##### ii) Currency risk (continued)

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

##### Sensitivity analysis

At 31 December 2022 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 134 million (31 December 2021: KShs 19 million) lower/higher.

##### 4.4 Fair value of financial assets and liabilities

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

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

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

	Level 1	Level 2	Level 3	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
<b>2022- Group</b>				
<b>Financial assets</b>				
Government securities at FVOCI	10,826,810	-	-	10,826,810
Govt securities at FVTPL	853,628	-	-	853,628
<b>2021 – Group</b>				
Government securities at FVOCI	9,546,922	-	-	9,546,922
Govt securities at FVTPL	1,568,955	-	-	1,568,955
<b>2022 - Bank</b>				
<b>Financial assets</b>				
Government securities at FVOCI	10,826,810	-	-	10,826,810
Govt securities at FVTPL	853,628	-	-	853,628
<b>2021 - Bank</b>				
<b>Financial assets</b>				
Government securities at FVOCI	9,546,922	-	-	9,546,922
Govt securities at FVTPL	1,568,955	-	-	1,568,955

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



**Notes (continued)**

**4 Financial risk management (continued)**

**4.4 Fair value of financial assets and liabilities (continued)**

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

<b>Group At 31 December 2022</b>	<b>Level 1 Shs'000</b>	<b>Level 2 Shs'000</b>	<b>Level 3 Shs'000</b>	<b>Fair value Shs'000</b>	<b>Carrying value Shs'000</b>
<b>Assets</b>					
Cash and balances with CBK	-	8,992,039	-	8,992,039	8,992,039
Balances due from banking institutions	-	-	-	5,589,075	5,589,075
Loans and advances to customers	-	-	90,484,813	90,484,813	81,380,510
Government securities at amortised cost	-	14,074,248	-	16,573,675	14,074,248
Other financial assets	-	139,256	-	139,256	139,256
<b>Liabilities</b>					
Deposits from customers	-	-	88,903,786	88,903,786	88,903,786
Borrowings	-	10,532,651	-	10,532,651	10,532,651
<b>At 31 December 2021</b>					
<b>Assets</b>					
Cash and balances with CBK	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,584,768	-	16,469,837	13,584,768
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
<b>Liabilities</b>					
Deposits from customers	-	-	83,085,397	83,085,397	81,911,523
Borrowings	-	8,504,698	-	8,504,698	8,241,794

**Notes (continued)**

**4 Financial risk management (continued)**

**4.4 Fair value of financial assets and liabilities (continued)**

<b>Bank At 31 December 2022</b>	<b>Level 1 Shs'000</b>	<b>Level 2 Shs'000</b>	<b>Level 3 Shs'000</b>	<b>Fair value Shs'000</b>	<b>Carrying value Shs'000</b>
<b>Assets</b>					
Cash and balances with CBK	-	8,992,039	-	8,992,039	8,992,039
Balances due from banking institutions	-	-	-	5,589,075	5,589,075
Loans and advances to customers	-	-	90,484,813	90,484,813	81,380,510
Government securities at amortised cost	-	14,063,735	-	14,063,735	14,063,735
Other investment	-	-	-	-	-
Other financial assets	-	139,256	-	139,256	139,256
<b>Liabilities</b>					
Deposits from customers	-	-	90,650,116	90,650,116	89,343,232
Borrowings	-	10,532,651	-	10,532,651	10,532,651
<b>At 31 December 2021</b>					
<b>Assets</b>					
Cash and balances with CBK	-	8,212,917	-	8,212,917	8,212,917
Balances due from banking institutions	-	-	-	4,287,227	4,287,227
Loans and advances to customers	-	-	90,427,794	90,427,794	66,901,824
Government securities at amortised cost	-	13,573,762	-	16,458,831	13,573,762
Other investment	-	1,355,980	-	1,355,980	1,355,980
Other financial assets	-	330,444	-	330,444	330,444
<b>Liabilities</b>					
Deposits from customers	-	-	83,604,412	83,604,412	82,430,538
Borrowings	-	8,504,698	-	8,504,698	8,241,794

## Notes (continued)

### 5 Capital Management

#### (a) Regulatory capital

The Group's objectives when managing capital are:

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

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

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

The Insurance Regulatory Authority requires Family Bancassurance Intermediary Limited to maintain a minimum level of regulatory capital of Shs 10,000,000. The agency has complied with the capital requirement.

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

The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

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

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

**Notes (continued)**

**5 Capital management (continued)**

The Bank's regulatory capital position at 31 December 2022 was as follows:

	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
<b>Tier 1 capital</b>		
Share capital	1,287,108	1,287,108
Share premium	5,874,662	5,874,662
Retained earnings	6,541,111	6,453,624
<b>Total Tier 1 capital</b>	<b>13,702,881</b>	<b>13,615,394</b>
<b>Tier 2 capital</b>		
Revaluation reserves (25%)	69,606	69,606
Term subordinated debt	4,000,000	4,000,000
Statutory reserve	1,777,283	369,161
<b>Total Tier 2 capital</b>	<b>5,846,889</b>	<b>4,438,767</b>
<b>Total regulatory capital</b>	<b>19,549,770</b>	<b>18,054,161</b>
<b>Risk-weighted assets</b>	<b>94,588,542</b>	<b>83,080,132</b>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	19.49%	21.73%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	14.01%	16.39%

	<b>Group</b>		<b>Bank</b>	
<b>6</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>(a) Interest income</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Interest on loans and advances	10,829,701	8,910,143	10,829,701	8,910,143
Interest on bank placements	60,377	29,319	60,377	29,319
Interest income on -government securities at amortised cost and FVOCI	2,929,883	2,216,889	2,929,883	2,216,889
	<b>13,819,961</b>	<b>11,156,351</b>	<b>13,819,961</b>	<b>11,156,351</b>
<b>(b) investment income</b>				
Interest on financial instruments at FVTPL	105,385	120,423	105,385	120,423

**Notes (continued)**

**7 Interest expense**

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Interest on customer deposits	3,205,440	2,442,127	3,246,977	2,474,224
Interest on balances due to banks	372,122	95,562	372,122	95,562
Interest on borrowings	946,072	468,657	946,072	468,657
Bond amortization expenses	104,437	99,756	104,437	99,756
Interest on Lease Liabilities (Note 33)	108,606	135,498	108,606	135,498
	<b>4,736,677</b>	<b>3,241,600</b>	<b>4,778,214</b>	<b>3,273,697</b>

**8 Fees and commission income**

**(a) Fee and commission income**

Transaction related fees	1,963,222	1,939,322	1,963,222	1,939,322
Loan service fees	109,500	205,498	109,500	205,498
Ledger related fees and commissions	190,731	195,575	190,731	195,575
	<b>2,263,453</b>	<b>2,340,395</b>	<b>2,263,453</b>	<b>2,340,395</b>

**(b) Fees and commission expense**

	<b>(386,962)</b>	<b>(302,274)</b>	<b>(386,962)</b>	<b>(302,274)</b>
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Fees and commission expense relate to bank charges swift expenses and cheque printing expenses.

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>(c) Other income</b>				
Brokerage commissions	237,437	230,845		-
Dividend Income	-	-	200,000	
Other incomes	160,908	167,084	160,908	167,084
	<b>398,345</b>	<b>397,929</b>	<b>360,908</b>	<b>167,084</b>

Included in the Bank's other income for the year is dividend received from the subsidiary amounting to 200 million (2021: Nil)

**9 Operating Expenses**

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Staff costs (note 10)	3,430,205	2,579,703	3,375,300	2,529,477
Directors' emoluments – Fees	142,246	117,635	134,607	105,416
- Other	-	-	-	-
Depreciation – property, plant and equipment (Note 22)	409,616	429,674	408,535	429,155
Amortisation of intangible assets (Note 23)	128,261	137,594	124,057	133,390
Contribution to Deposit Protection Fund	116,535	103,761	116,535	103,761
Auditors' remuneration - current period	19,292	12,277	17,999	11,580
Amortisation of operating lease (Note 24)	4,637	2,030	4,637	2,030
Marketing Expenses	421,320	264,762	421,194	264,757
Occupancy expenses	1,051,207	961,777	1,050,458	960,143
Other operating expenses	1,352,722	1,546,447	1,346,767	1,545,187
	<b>7,076,041</b>	<b>6,155,660</b>	<b>7,000,089</b>	<b>6,084,896</b>

**Notes (continued)**

<b>10 Staff costs</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Salaries and wages	2,791,797	2,145,867	2,747,764	2,102,829
Training, recruitment and staff welfare costs	285,297	121,305	281,035	121,022
Contributions to defined contribution pension scheme	155,811	122,018	153,930	120,393
Medical expenses	206,392	166,279	202,170	161,101
Leave pay provision movement	(13,187)	21,026	(13,597)	21,026
NSSF contributions	4,095	3,208	3,998	3,106
	<b>3,430,205</b>	<b>2,579,703</b>	<b>3,375,300</b>	<b>2,529,477</b>

The total number of permanent employees in the Group and Bank as at the end of the year was 1,712 and 1,706 (2021: 1,369 and 1,347 respectively)

<b>11 Income tax expense</b>	<b>Group</b>	<b>2021</b>	<b>Bank</b>	<b>2021</b>
	<b>2022</b>	<b>Kshs 000</b>	<b>2022</b>	<b>Kshs 000</b>
(a) Taxation charge				
Current tax based on the taxable profit at 30% (2021: 30%)	1,498,382	1,335,950	1,436,741	1,277,555
Deferred income tax (Note 28)	90,080	(221,591)	90,547	(221,198)
Under provision of current tax in prior years	-	(55,732)	-	(55,732)
Overprovision of deferred income tax in prior years	(57,182)	(30,426)	(56,500)	(31,233)
Total charge	<b>1,531,280</b>	<b>1,028,201</b>	<b>1,470,788</b>	<b>969,392</b>
b) Reconciliation of accounting profit to tax charge				
<b>Profit before taxation</b>	<b>3,744,992</b>	<b>3,336,847</b>	<b>3,741,970</b>	<b>3,144,669</b>
Tax calculated at a tax rate of 30% (2021: 30%)	1,123,498	1,001,054	1,122,591	943,400
Tax effect of expenses not deductible for tax purposes	661,972	423,089	601,705	423,006
Tax effect of income not taxable	(200,376)	(337,661)	(200,376)	(337,661)
Under provision of current tax in prior years	-	(55,467)	-	(55,732)
Overprovision of deferred tax in prior years	(57,182)	(30,426)	(56,500)	(31,233)
Effect of change in tax rate	-	-	-	-
Deferred tax on investment property valuation	(260)	-	(260)	-
Deferred tax on IFRS 16 Balances	3,628	27,612	3,628	27,612
	<b>1,531,280</b>	<b>1,028,201</b>	<b>1,470,788</b>	<b>969,392</b>

**Notes (continued)**

**12 Earnings per share – Group & Bank**

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

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Profit (Kshs 000)	2,213,712	2,308,646	2,271,182	2,175,277
Weighted average number of shares during the year (000)	1,287,108	1,287,108	1,287,108	1,287,108
Earnings per share: Basic and diluted (Sh)	1.72	1.79	1.76	1.69

There were no potential dilutive shares outstanding at 31 December 2022.

**13 Cash and balances with CBK-Group and Bank**

	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
Cash in hand	3,984,702	3,960,569
Balances with CBK (Central Bank of Kenya) - cash ratio & other balances	5,007,337	4,252,348
	8,992,039	8,212,917

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2022, the cash ratio reserve requirement was 4.25% (2021 – 4.25%) of all customer deposits held by the Bank. These funds are available for use by the company in its day-to-day operations in a limited way provided that on any given day, this balance does not fall below the 3% requirement and provided that the overall average in the month is at least 4.25%.

**14 Balances due from banking institutions – Group and Bank**

	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>(a) Balances due from banking institutions maturing within 90 days:</b>		
Overnight lending and placement with other banks	4,796,563	1,131,500
Balances due from local banking institutions	1,319	1,319
Balances due from foreign banking institutions	791,193	3,154,408
	5,589,075	4,287,227
<b>(b) Balances due to banking institutions maturing within 90 days:</b>		
Balances with local banking institutions	6,419,589	2,281,200

Deposits with/from local banks as at 31st December 2022 represent overnight lending. The effective interest rate on deposits due from local banking institutions at 31 December 2022 was 1.41 % (2021 – 2.90%). The effective interest rate on deposits due to local banking institutions at 31 December 2022 was 7.21 % (2021 – 5.61%).

**Notes (continued)**

**15 Government securities**

	<b>Group</b>		<b>Bank</b>	
	<b>2021</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Treasury bills and bonds – at amortised cost	14,074,248	13,584,768	14,063,735	13,573,762
Treasury bonds at fair value through other comprehensive income	10,826,810	9,546,922	10,826,810	9,546,922
Treasury bonds at fair value through profit and loss	853,628	1,568,955	853,628	1,568,955
	<u>25,754,686</u>	<u>24,700,645</u>	<u>25,744,173</u>	<u>24,689,639</u>

The maturity profile of government securities is as follows:

Maturing within one year	311,215	13,199,725	311,215	13,199,725
Maturing between 2 to 5 years	12,426,522	-	12,426,522	-
Maturing after 5 years	13,016,949	11,500,920	13,006,436	11,489,914
	<u>25,754,686</u>	<u>24,700,645</u>	<u>25,744,173</u>	<u>24,689,639</u>

The weighted average effective interest rate on treasury bonds at 31 December 2022 was 12.30%, (2021 - 11.82%) The weighted average effective interest rate on treasury bills was 2022( nil )(2021- 9.40%). No treasury bills held in As of 31 December 2022, as of 31st December 2022, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya ,(2021 Nil)



**Notes (continued)**

**16 Loans and advances to customers- Group & Bank**

(a) Loans and advances at amortised cost

<b>Gross total</b>	<b>2022 Kshs 000</b>	<b>2021 Kshs 000</b>
Term loans	69,764,759	59,693,703
Mortgage	12,139,725	9,074,329
Overdraft and credit cards	3,902,789	3,206,176
<b>Total Gross</b>	<b>85,807,273</b>	<b>71,974,208</b>
<b>Provisions</b>		
Term loans	(4,014,561)	(4,579,090)
Mortgage	(45,629)	(214,022)
Overdraft and credit cards	(366,573)	(279,272)
<b>Total Provisions</b>	<b>(4,426,763)</b>	<b>(5,072,384)</b>
<b>Net total</b>	<b>81,380,510</b>	<b>66,901,824</b>

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

The weighted average effective interest rate on advances to customers at 31 December 2022 was 12.96% (2021 – 12.91 %). The related party transactions and balances are covered under Note 35 and concentration of advances to customers is covered under Note 4.

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

	<b>Stage 1 and 2 Kshs 000</b>	<b>Stage 3 Kshs 000</b>	<b>Total Kshs 000</b>
<b>31 December 2022</b>			
<b>Impairment charge</b>	(3,390)	(1,303,741)	(1,307,131)
<b>31 December 2021</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>Impairment charge</b>	381,028	(1,657,166)	(1,276,138)

**Notes (continued)**

**17 Contingencies and commitments including off balance sheet items**

**(a) Contingent liabilities**

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

	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
Guarantees	9,813,401	8,463,914
Letters of credit	54,971	192,652
	<u>9,868,372</u>	<u>8,656,566</u>
Litigations against the Group	<u>283,480</u>	<u>266,071</u>

**Nature of contingent liabilities:**

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

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

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

Concentrations of contingent liabilities are covered under note 4.

**Litigations against the Group**

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

**Notes (continued)**

**17 Contingencies and commitments including off balance sheet items (continued)**

**(b) Commitments to extend credit**

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

	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
Undrawn formal stand-by facilities, credit lines and other commitments to lend	<u>3,691,461</u>	<u>9,186,335</u>

**(c) Capital commitments**

	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
Authorised and contracted for	<u>143,160</u>	<u>190,326</u>
Authorised but not contracted for	<u>116,651</u>	<u>78,503</u>

**18 Other assets**

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>	<b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
Un-cleared items in the course of collection	11,670	209,189	11,670	209,189
Prepayments	357,988	186,451	357,988	186,451
Deposits for services	127,586	121,255	127,586	121,255
Others	1,296,767	489,613	1,265,757	451,476
	<u>1,794,011</u>	<u>1,006,508</u>	<u>1,763,001</u>	<u>968,371</u>

All other assets are current.

**19 Other investments**

	<b>Bank and Group</b> <b>2022</b> <b>Kshs 000</b>	<b>2021</b> <b>Kshs 000</b>
Principal balance at start of year	1,355,980	126,804
Maturities/additions in the year	(1,355,980)	1,355,980
Provision for expected loss	<u>-</u>	<u>(126,804)</u>
	<u>-</u>	<u>1,355,980</u>

The Bank had made investments through an investment manager, Orient asset managers Limited.

**Notes (continued)**

**20 Investment in subsidiary**

	No of shares	Holding	2022 Kshs 000	2021 Kshs 000
Family Bank Bancassurance intermediary Limited	10,000	100%	10,000	10,000

The subsidiary is a wholly owned Limited Liability Company incorporated and domiciled in Kenya. The principal activity of the company is that of an insurance business. Investment in subsidiary is non-current.

**21 Investment properties - Group & Bank**

**For the year ended 31 December**

	2022 KShs '000	2021 KShs '000
At start and end of year	23,400	23,400
Fair value gains	5,200	-
<b>At end of year</b>	<b>28,600</b>	<b>23,400</b>

Investment property relates to Leasehold land valued at Shs 28,600,000 (acquired at a cost Shs 3,170,000).

Amounts recognised in statement of profit or loss:

Fair value gains	5,200	-
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The fair valuation basis takes into account the normal lease structure for similar pieces of land.

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

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

	Level 1 Kshs. '000	Level 2 Kshs '000	Level 3 Kshs. '000	Total Kshs. '000
<b>At 31 December 2022</b>				
Investment properties	-	-	28,600	28,600
<b>At 31 December 2021</b>				
Investment properties	-	-	23,400	23,400

**Valuation technique used to derive level 3 fair values**

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

Notes (continued)

22 Property and Equipment- Group

Cost/ Valuation Year ended 31 December 2021	Freehold Land Kshs 000	Buildings Kshs 000	Leasehold improvements Kshs 000	Computer Motor vehicles Kshs 000	Fixtures, fittings and equipment Kshs 000	Total Kshs 000
At 1 January 2021	590,000	460,000	2,845,714	2,277,273	1,433,357	7,727,381
Additions	-	-	72,189	169,812	17	280,650
At 31 December 2021	590,000	460,000	2,917,903	2,447,085	1,471,989	8,008,031
<b>Depreciation</b>						
At 1 January 2021	-	(11,099)	(2,228,887)	(2,133,279)	(1,028,176)	(5,516,380)
Charge for the year	-	(11,099)	(200,429)	(91,949)	(123,531)	(429,674)
At 31 December 2021	-	(22,198)	(2,429,316)	(2,225,228)	(1,151,707)	(5,946,054)
<b>Net book value at 31 December 2021</b>	590,000	437,802	488,587	221,857	320,282	2,061,977
<b>Year ended 31 December 2022</b>						
At 1 January 2022	590,000	460,000	2,917,903	2,447,085	1,471,989	8,008,031
Additions	76,500	-	130,370	165,426	34,707	480,149
At 31 December 2022	666,500	460,000	3,048,273	2,612,511	1,506,696	8,488,180
<b>Depreciation</b>						
At 1 January 2022	-	(22,198)	(2,429,316)	(2,225,228)	(1,151,707)	(5,946,054)
Charge for the year	-	(11,099)	(188,799)	(89,703)	(112,067)	(409,616)
At 31 December 2022	-	(33,297)	(2,618,115)	(2,314,931)	(1,263,774)	(6,355,670)
<b>Net book value at 31 December 2022</b>	666,500	426,703	430,158	297,580	242,922	2,132,510

The net book value of the building had revaluation not taken place would have been KSh 302,005,000 (2021: KSh 302,005,000).

There are no properties or equipment charged as securities as at end of year (2021: None). Fully depreciated assets still in use as at end of year had an initial cost of Kshs 2.51b (2021: Kshs 2.54b)

Notes (continued)

22 Property and Equipment-Bank

Cost/ Valuation Year ended 31 December 2021	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and Equipment	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 1 January 2021	590,000	460,000	2,845,714	2,272,768	117,024	1,437,253	7,722,759
Additions	-	-	72,189	169,812	17	38,632	280,650
At 31 December 2021	590,000	460,000	2,917,903	2,442,580	117,041	1,475,885	8,003,409
<b>Depreciation</b>							
At 1 January 2021	-	(11,099)	(2,228,887)	(2,132,496)	(114,375)	(1,026,011)	(5,512,868)
Charge for the year	-	(11,099)	(199,276)	(92,614)	(2,666)	(123,500)	(429,155)
At 31 December 2021	-	(22,198)	(2,428,163)	(2,225,110)	(117,041)	(1,149,511)	(5,942,023)
<b>Net book value at 31 December 2021</b>	590,000	437,802	489,740	217,470	-	326,374	2,061,386
<b>Year ended 31 December 2022</b>							
At 1 January 2022	590,000	460,000	2,917,903	2,442,580	117,041	1,475,885	8,003,409
Additions	76,500	-	130,370	165,264	73,147	33,973	479,254
At 31 December 2022	666,500	460,000	3,048,273	2,607,844	190,188	1,509,858	8,482,663
<b>Depreciation</b>							
At 1 January 2022	-	(22,198)	(2,428,163)	(2,225,110)	(117,041)	(1,149,511)	(5,942,023)
Charge for the year	-	(11,099)	(187,725)	(89,703)	(7,945)	(112,063)	(408,535)
At 31 December 2022	-	(33,297)	(2,615,888)	(2,314,813)	(124,986)	(1,261,574)	(6,350,558)
<b>Net book value at 31 December 2022</b>	666,500	426,703	432,385	293,031	65,202	248,284	2,132,105

In accordance with IFRS 13, the fair value ranking of the freehold land and buildings is at Level 3. The net book value of the building had revaluation not taken place would have been Ksh 302,005,000 (2021: Ksh 302,005,000)

Notes (continued)

23 Intangible assets – Computer software

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
<b>Cost</b>				
At 1 January	1,606,743	1,542,392	1,579,088	1,514,737
Additions	85,446	64,351	85,446	64,351
WIP	14,984		14,984	
<b>At 31 December</b>	<b>1,707,173</b>	<b>1,606,743</b>	<b>1,679,518</b>	<b>1,579,088</b>
<b>Amortisation</b>				
At 1 January	1,280,632	1,143,036	1,263,837	1,130,448
Charge for the year	128,259	137,596	124,056	133,389
<b>At 31 December</b>	<b>1,408,891</b>	<b>1,280,632</b>	<b>1,387,893</b>	<b>1,263,837</b>
<b>Net book value at 31 December</b>	<b>298,282</b>	<b>326,111</b>	<b>291,625</b>	<b>315,251</b>

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

24 Prepaid operating lease rentals- Group and Bank

	2022	2021
	Kshs 000	Kshs 000
<b>Leasehold land:</b>		
<b>Cost</b>		
At 1 January and 31 December	180,335	180,335
<b>Amortisation</b>		
At 1 January	47,782	45,752
Charge for the year	4,637	2,030
At 31 December	52,419	47,782
<b>Net book value</b>		
At 31 December	127,916	132,553

25 Customer deposits

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
<b>Customer deposits</b>				
Current and demand accounts	45,652,245	45,456,033	45,653,540	45,464,691
Savings accounts	4,603,205	3,998,699	4,603,205	3,998,699
Fixed deposit accounts	38,648,335	32,456,790	39,086,487	32,967,149
	<b>88,903,786</b>	<b>81,911,522</b>	<b>89,343,232</b>	<b>82,430,539</b>

**Notes (continued)**

**25 Customer deposits (continued)**

<b>Maturity analysis of customer deposits</b>	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Repayable:				
On demand	45,652,423	45,456,208	45,653,717	45,464,865
Within one year	43,111,437	36,345,613	43,549,589	36,855,971
1-5 years	139,926	109,701	139,926	109,701
	<b>88,903,786</b>	<b>81,911,522</b>	<b>89,343,232</b>	<b>82,430,537</b>

The weighted average effective interest rate on interest bearing customer deposits at 31st December 2022 was 8.63% (2021–8.42%). The related party transactions and balances are covered under note 34 and concentration of customers' deposits is covered under note 4.

**26 Borrowings – Group & Bank**

	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>(a) Analysis</b>		
<b>Development Financial Institutions</b>		
European Investment Bank (EIB)	101,447	304,340
Waste Finish Ink	10,864	10,864
Water Credit Alternative Channels	5,480	2,017
ResponsAbility	2,411,001	1,245,510
Blue Orchard	2,118,318	1,940,523
Incofin	864,779	794,637
Finance in motion	1,063,067	-
	<b>6,574,956</b>	<b>4,297,891</b>
<b>Subordinated Bond</b>		
Subordinated Bond	4,011,827	4,011,568
Unamortized origination fees	(54,132)	(67,665)
	<b>3,957,695</b>	<b>3,943,903</b>
<b>Total borrowings</b>	<b>10,532,651</b>	<b>8,241,794</b>
<b>(b) Movement:</b>		
At beginning of the year	8,241,794	3,011,961
Proceeds from borrowings	3,766,333	7,925,612
Repayments in the year	(1,475,476)	(2,695,779)
At end of the year	<b>10,532,651</b>	<b>8,241,794</b>



Notes continued

26 Borrowings – Group & Bank

The table below summarises the terms for the borrowings:

Lender	Outstanding amount Kshs 000	Currency	Repayment period	Maturity date	Interest rate
EIB	101,447	KES	7yrs	Jan 2021 and Jan 2023	9.78%
ResponsAbility	2,325,544	USD	4yrs	8-Jul-24 15-Sep-24 27-July-26	6-month LIBOR plus four hundred sixty basis points (460 bps) of the outstanding Principal Amount as of the Disbursement Date
Blue Orchard	2,116,310	USD	4yrs	28-Dec-24	475 basis points plus the LIBOR to be determined on the Quotation Day.
Incofin	862,289	USD	4yrs	13-Jan - 2025	Fixed interest rate per annum equal to 4.75% net per annum
Corporate Bond	4,000,000	KSH		17-Dec-2026	i) Fixed Rate Notes: - 13.0% per annum payable semi-annually ii) Floating Rate Notes: - 182-day T bill + 250bps payable semi-annually
Finance in Motion	1,057,714	USD	3yrs	15-Dec-2025	Libor +4.75 percent margin per annum.

27 Group and Bank provisions and other liabilities  
Provisions

(a) Provisions and accruals

	2022 Kshs 000	2021 Kshs 000
Opening balance	494,631	554,037
Released Provision	(165,722)	(59,406)
Closing balance	328,909	494,631
Leave pay accrual	41,270	54,866
	370,179	549,497

(b) Other liabilities

	Group		Bank	
	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
Cheques for collection	46,666	48,527	46,666	48,527
Advance loan processing fee	1,180,251	913,591	1,180,251	913,591
Accounts payable	54,148	14,719	54,148	14,719
Revenue collected on behalf of revenue authorities	227,699	200,403	227,699	200,403
Other payables	801,238	580,309	684,712	436,190
	2,310,002	1,757,549	2,193,476	1,613,430

Other liabilities are current.

**Notes (continued)**

**28 Deferred income tax**

Deferred income tax is calculated using the enacted income tax rate of 30% (2021 - 30%). The movements in the deferred income tax account were as follows:

	<b>2022</b>	<b>2021</b>
<b>Family Bancassurance Intermediary Limited</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
At start of year	(761)	(1,126)
credit to profit or loss	462	394
Under/(over) provision in prior year	682	(29)
<b>Deferred income tax asset/liability end of year</b>	<b>383</b>	<b>(761)</b>

Deferred income tax liability arises from temporary differences in the subsidiary, Family Bancassurance Intermediary Limited.

**Bank**

At start of year	1,805,110	1,552,679
Credit/ charge to profit or loss	(90,546)	221,198
Charge to other comprehensive income	-	-
Overprovision in prior year	56,500	31,233
<b>Deferred income tax asset end of year</b>	<b>1,771,064</b>	<b>1,805,110</b>

<b>Deferred income tax asset</b>	<b>Balance at 1 January</b>	<b>Prior year over/(under) provision</b>	<b>Recognised in profit or loss</b>	<b>Recognised in Other comprehensive income</b>	<b>Balance at 31 December</b>
<b>Bank</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>2022</b>					
Property and equipment	373,456	56,500	117,255	-	547,211
Other deductible differences	1,431,654	-	(207,541)	(260)	1,223,853
	<u>1,805,110</u>	<u>56,500</u>	<u>(90,286)</u>	<u>(260)</u>	<u>1,771,064</u>
<b>2021</b>					
<b>Deferred tax asset</b>					
Property and equipment	144,365	31,233	197,858	-	373,456
Other deductible differences	1,408,314	-	23,340	-	1,431,654
	<u>1,552,679</u>	<u>31,233</u>	<u>221,198</u>	<u>-</u>	<u>1,805,110</u>
<b>Deferred tax liability (Family Bancassurance Intermediary limited)</b>					
Property and equipment	(1,276)	(29)	394	-	(911)
Other deductible differences	150	-	-	-	150
	<u>(1,126)</u>	<u>(29)</u>	<u>394</u>	<u>-</u>	<u>(761)</u>

**Notes (continued)**

**28 Deferred income tax (continued)**

Deferred income tax asset/ liability	Balance at 1 January	Prior year (over)/under provision	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
<b>Bank</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
<b>2022</b>					
Property and equipment	373,456	56,500	(90,286)	-	339,670
Other deductible differences	1,431,654	-	-	(260)	1,431,394
	1,805,110	56,500	(90,286)	(260)	1,771,064
<b>2021</b>					
Property and equipment	144,365	31,233	197,858	-	373,456
Other deductible differences	1,408,314	-	23,340	-	1,431,654
	1,552,679	31,233	221,198	-	1,805,110

**29 Share Capital**

	<b>2022 Kshs 000</b>	<b>2021 Kshs 000</b>
<b>Authorised:</b>		
1,500,000,000 ordinary shares of Sh 1 each	1,500,000	1,500,000
<b>Issued:</b>		
1,287,107,542 ordinary shares of Sh 1 each	1,287,108	1,287,108

**Movement in issued and fully paid shares**

	<b>Number of shares</b>	<b>Share capital Kshs '000</b>	<b>Share premium Kshs '000</b>	<b>Total Kshs 000</b>
At 1 January 2021	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2021	1,287,107,542	1,287,108	5,874,662	7,161,770
At 1 January 2022	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2022	1,287,107,542	1,287,108	5,874,662	7,161,770

There was no change in the share capital for the year ended 31 December 2022.

## Notes (continued)

### 30 Other reserves

#### 30.1 Revaluation surplus

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

#### 30.2 Statutory reserve

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

#### 30.3 Fair value reserve

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

### 31 Notes to the statement of cash flows

#### (a) Reconciliation of profit before taxation to cash flow from operations

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
Profit before taxation	3,744,992	3,336,847	3,741,970	3,144,669
<b>Adjustments for:</b>				
Depreciation of property and equipment	409,616	429,674	409,123	429,155
Amortization of prepaid operating lease rentals	4,637	2,030	4,637	2,030
Interest income earned	(13,819,961)	(11,156,351)	(13,819,961)	(11,156,351)
Interest expense incurred	4,736,677	3,241,600	4,778,214	3,273,697
Amortization of intangible assets	128,260	137,594	124,058	133,390
Depreciation of right of use asset	428,033	432,686	428,033	432,686
Fair value losses	31,230	-	31,230	-
<b>Changes in working capital items:</b>				
Cash reserve ratio	(754,989)	592,155	(754,989)	592,155
Financial assets at FVOCI	(991,092)	(2,513,916)	(991,092)	(2,513,916)
Financial assets at amortised cost	(778,276)	(4,683,373)	(778,769)	(4,672,367)
Financial assets at FVPL	715,327	(502,158)	715,327	(502,158)
Loans and advances	(14,478,686)	(10,322,026)	(14,478,686)	(10,322,026)
Other investments	1,355,980	(1,229,176)	1,355,980	(1,229,176)
Other assets	(787,503)	415,037	(794,630)	426,083
Customer deposits	6,992,264	12,154,753	6,912,695	12,305,159
Provisions	373,134	63,345	400,628	62,184
Movement in unamortised borrowing origination fees	-	(64,616)	-	(64,616)
<b>Cash generated from operations</b>	<b>(12,690,357)</b>	<b>(9,665,895)</b>	<b>(12,716,232)</b>	<b>(9,659,402)</b>

## Notes (continued)

### 31 Notes to the statement of cash flows (continued)

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

	Group		Bank	
	2022	2021	2022	2021
	Sh '000	Sh '000	Sh '000	Sh '000
Cash at hand	3,984,702	3,960,569	3,984,702	3,960,569
Balances with other banking institutions	5,589,075	4,287,227	5,589,075	4,287,227
Balances due to other banking institutions	(6,419,589)	(2,281,200)	(6,419,589)	(2,281,200)
	<u>3,154,188</u>	<u>5,966,596</u>	<u>3,154,188</u>	<u>5,966,596</u>

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

### 32 Operating segments

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Group basis and are not allocated to operating segments. The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments,

Notes (continued)

32 Operating segments (continued)

Profit or loss for the year ended 31 December 2022

	Wholesale banking	Retail banking	Other	Total
Interest income	5,527,984	8,291,977	-	13,819,961
Interest expense	(1,911,286)	(2,866,929)	41,537	(4,736,678)
<b>Net interest income</b>	<b>3,616,698</b>	<b>5,425,048</b>	<b>41,537</b>	<b>9,083,283</b>
Fee and commission income	905,382	1,158,072	-	2,063,454
Fee and commission expense	(154,785)	(232,178)	-	(386,963)
<b>Net fees and commission income</b>	<b>750,597</b>	<b>925,894</b>	<b>-</b>	<b>1,676,491</b>
Investment income	42,154	63,231	-	105,385
Net trading income	265,864	398,796	-	664,659
Other income	144,363	216,545	237,438	598,346
<b>Operating income</b>	<b>4,819,676</b>	<b>7,029,514</b>	<b>278,974</b>	<b>12,128,164</b>
Operating expenses	(2,800,036)	(4,200,054)	(75,952)	(7,076,042)
Credit impairment losses	(522,852)	(784,278)	-	(1,307,130)
<b>Profit before taxation</b>	<b>1,496,788</b>	<b>2,045,182</b>	<b>203,022</b>	<b>3,744,992</b>
Income tax expense	(588,315)	(881,765)	(61,200)	(1,531,280)
Other comprehensive income	(626,729)			(626,729)
<b>Profit for the year</b>	<b>281,744</b>	<b>1,163,417</b>	<b>141,822</b>	<b>1,586,983</b>

Profit or loss for the year ended 31 December 2021

	Wholesale banking	Retail banking	Other	Total
Interest income	4,462,540	6,693,811	-	11,156,351
Interest expense	(1,309,479)	(1,964,218)	32,097	(3,241,600)
<b>Net interest income</b>	<b>3,153,062</b>	<b>4,729,592</b>	<b>32,097</b>	<b>7,914,751</b>
Fee and commission income	936,158	1,404,237	-	2,340,395
Fee and commission expense	(120,910)	(181,364)	-	(302,274)
<b>Net fees and commission income</b>	<b>815,248</b>	<b>1,222,873</b>	<b>-</b>	<b>2,038,121</b>
Investment income	48,169	72,254	-	120,423
Net trading income	118,968	178,453	-	297,421
Other income	66,834	100,250	230,845	397,929
<b>Operating income</b>	<b>4,202,281</b>	<b>6,303,422</b>	<b>262,942</b>	<b>10,768,645</b>
Operating expenses	(2,433,958)	(3,650,938)	(70,764)	(6,155,660)
Credit impairment losses	(510,455)	(765,683)		(1,276,138)
<b>Profit before taxation</b>	<b>1,257,868</b>	<b>1,886,801</b>	<b>192,178</b>	<b>3,336,847</b>
Income tax expense	(387,757)	(581,635)	(58,809)	(1,028,201)
Other comprehensive income	(172,561)	-	-	(172,561)
<b>Profit for the year</b>	<b>697,550</b>	<b>1,305,166</b>	<b>133,369</b>	<b>2,136,085</b>

**Notes (continued)**

**32 Operating segments (continued)**

**Statement of financial position as at 31 December 2022**

	<b>Wholesale banking Sh' 000</b>	<b>Retail banking Sh' 000</b>	<b>Others Sh' 000</b>	<b>Total Sh' 000</b>
Assets	51,205,227	76,810,764	497,122	128,513,113
Liabilities and equity:	51,451,856	77,177,783	(116,526)	128,513,113
Inter-segment lending	(131,135)	(196,702)	327,837	-
<b>Total liabilities and equity</b>	<b>51,320,721</b>	<b>76,981,081</b>	<b>211,311</b>	<b>128,513,113</b>
Other disclosures				
Capital expenditure	225,880	338,820	-	564,700

**Statement of financial position as at 31 December 2021**

	<b>Wholesale banking Sh' 000</b>	<b>Retail banking Sh' 000</b>	<b>Others Sh' 000</b>	<b>Total Sh' 000</b>
Assets	44,440,048	66,714,001	582,946	111,736,995
Liabilities and equity:	44,752,446	67,128,669	(144,119)	111,736,995
Inter-segment lending	(171,226)	(256,840)	428,066	-
<b>Total liabilities and equity</b>	<b>44,581,219</b>	<b>66,871,829</b>	<b>283,947</b>	<b>111,736,995</b>
Other disclosures	-	-	-	-
<b>Capital expenditure</b>	<b>126,538</b>	<b>189,806</b>	<b>-</b>	<b>316,344</b>

**Notes (continued)**

**33 Leases**

***The Bank as a lessee***

***(a) Right of use asset***

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

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

<b>Cost</b>		
At start of year	2,323,978	2,455,487
Additions	143,956	-
Disposals	-	(131,509)
<b>At end of year</b>	<b>2,467,934</b>	<b>2,323,978</b>
<b>Accumulated depreciation</b>		
At start of year	(1,404,571)	(971,885)
Charge for the year	(428,033)	(432,686)
<b>At end of year</b>	<b>(1,832,604)</b>	<b>(1,404,571)</b>
<b>Net carrying amount at end of year</b>	<b>635,330</b>	<b>919,407</b>

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

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

Amortisation of right of use asset	428,034	453,105
Interest expense (included in interest expense)	108,606	174,804



**Notes (continued)**

**33 Leases(continued)**

*The Bank as a lessee*

**(b) Lease liabilities**

	2022 Kshs 000	2021 Kshs 000
Current	252,724	276,055
Non-current	590,285	863,123
	<u>843,009</u>	<u>1,139,178</u>

The movement in the lease liabilities for group and Bank was as follows:

	2022 Kshs 000	2021 Kshs 000
At start of year	1,139,178	1,607,076
Additions/Disposal during the year	143,957	(61,681)
Interest expense on leases	108,606	135,498
Repayments	(548,732)	(541,714)
At end of year	<u>843,009</u>	<u>1,139,178</u>

**34 Related party transactions**

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

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

	Group		Bank	
	2022 KShs '000	2021 KShs '000	2022 KShs '000	2021 KShs '000
<b>(a) Loans and advances</b>				
At 1 January	2,879,543	2,932,681	2,879,543	2,932,681
Additions	3,954,900	613,412	3,954,900	613,412
Interest charged	739,212	202,523	739,212	202,523
Repayments	(3,382,850)	(869,073)	(3,382,850)	(869,073)
At 31 December 2022	<u>4,190,805</u>	<u>2,879,543</u>	<u>4,190,805</u>	<u>2,879,543</u>

**Notes (continued)**

**34 Related party transactions(continued)**

As at 31 December 2022 loans and advances to staff amounted to Sh1,313,394,000 (2021 – Sh 1,451,377,000). The loans and advances to related parties are performing and adequately secured.

	<b>Directors</b>	<b>Companies associated to directors</b>	<b>Total</b>
	<b>Sh '000</b>	<b>Sh '000</b>	<b>Sh '000</b>
<b>(b) Deposits – Group and bank</b>			
At 1 January 2021	9,947	5,510	15,457
Deposits	584,503	1,768,181	2,352,684
Withdrawals	(177,225)	(336,341)	(513,566)
At 31 December 2021	<u>417,225</u>	<u>1,437,350</u>	<u>1,854,575</u>
At 1 January 2022	417,225	1,437,350	1,854,575
Deposits	310,145	831,183	1,141,328
Withdrawals	(246,462)	(869,693)	(1,116,155)
At 31 December 2022	<u>480,908</u>	<u>1,398,840</u>	<u>1,879,749</u>

**Key management compensation**

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

	<b>Group</b>		<b>Bank</b>	
<b>Short term benefits</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>	<b>Kshs 000</b>
Salaries and other benefits	211,583	158,571	211,583	158,571
Directors' emoluments	142,246	117,635	134,607	105,416

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