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FAMILY BANK

With you, for life

INTEGRATED
REPORT & FINANCIAL
STATEMENTS
2022

Family Bank
With you, for life

CONTENTS

FAMILY BANK

AT A GLANCE

Our Vision

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

Our Mission

We positively transform people's lives by providing quality financial services through innovative, efficient and repu - table practice.

Our Purpose

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

Our Values

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

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

Transparency
Our customers will trust and reward us for it.

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

ABOUT THE INTEGRATED REPORT & FINANCIAL STATEMENTS 2022

This integrated report illustrates how Family Bank Limited creates and preserves value for all our stakeholders, and how we deliver on our vision of transforming people's lives in Africa.

Scope and Boundary

Our report is for the period from 1 January 2022 to 31 December 2022 and covers the performance of Family Bank Limited, its subsidiary Family Bank Bancassurance Intermediary Limited and the activities of The Family Group Foundation.

Reporting Frameworks

This report has been prepared in accordance with the International Integrated Reporting Framework (the framework) and the Capital Market Authority (CMA) Code of Corporate Governance. The accompanying annual financial statements conform to the International Financial Reporting Standards (IFRS) the Kenya Banking Act and the Companies Act, 2015.

Forward-looking Statements

The report contains certain forward-looking statements in respect of our strategy, performance and operations. These forward-looking statements involve risk and uncertainty as they relate to future events and circumstances which are difficult to predict, and therefore beyond our control. These conditions could cause our actual results, performance or achievements to be materially different from what is expressed or implied by such forward-looking statements.

Target Audience

This integrated report is our primary report to our investors and our key stakeholders. It is a critical component of our commitment to be transparent to our stakeholders.

Directors' Approval

The Board of Directors acknowledges its responsibility to ensure that reports issued by Family Bank Limited enable stakeholders to make informed assessments of its performance and its short, medium and long-term prospects. The board also acknowledges its responsibility to ensure the integrity of Family Bank's external reports.

THE GROUP OVERVIEW

About Family Bank

Family Bank was founded with only one branch in 1985 and steadily grew over time. It became a fully-fledged commercial bank in May 2007 and currently has 93 branches across 32 Counties. It is the fourth-largest bank in Kenya as of December 2022.

The Bank is regulated by the Central Bank of Kenya (CBK) and is also regularly inspected using CAMEL ratings which look at Capital, Assets, Management, Earnings and Liquidity. The Bank is a Deposit Protection Fund (DPF) member, which protects customers' deposits.

The Bank prides itself in growing a strong retail customer base with a key focus on SME banking and a vision to positively transform people's lives in Africa. The Bank has over 750,000 customers, 5,900 bank agents and over 8,000 merchants countrywide, with total assets of KES 128.5 billion and a deposit base of KES 89.3 billion as of 31 December 2022.

Family Bank prides itself on being a digitally innovative bank having been the first bank to introduce paperless banking through smart card technology that enables customers to transact without having to fill in deposit or withdrawal slips. We also offer mobile banking (PesaPap) in Kenya and we were the first to launch the mVisa service in Africa.

In 2022, Family Bank was voted second-best bank overall and best Tier Two bank in customer responsiveness and digital banking experience in a survey conducted by the Kenya Bankers Association. Previously in 2021, Family Bank secured two first-place awards: Best Overall Bank and Best Tier Two Bank for Customer Responsiveness and Satisfactory Digital Experience. In 2020, the Bank was also voted Best Tier Two Bank and the second-best bank overall in Digital and Customer Experience in the Kenya Bankers Association's Customer Satisfaction Survey.

Family Bank also received two awards for excellence from the Public Relations Society of Kenya's (PRSK) Annual Awards in 2021: Financial Communication Campaign of the Year and Overall Public Relations Campaign of the Year. These awards were in recognition of the Bank's successful campaign where it raised KES 4.42 billion via public placement which was oversubscribed to the tune of 147.3%.

The Bank is leveraging the successful adoption of the universal banking model and aims at gradually positioning the Bank as a one-stop-shop providing retail and consumer products, SME, agribusiness, corporate banking, trade finance and insurance products.

The Bank is also leveraging the devolved system to rope in more customers. This is in line with the County Banking Roadmap aimed at leveraging the opportunities offered by the devolved governance structure.

Milestones

01 **1984**
Licensing of Family Finance Building Society

02 **1985**
Opened First branch in Kiambu; Head Office and branch at Four Ways Towers (now Family Bank Towers)

03 **2007**
Conversion to a fully-fledged Commercial Bank, Family Bank Ltd

04 **2012**
Onboarding of Key Shareholders (KTDA, Pan Africa Insurance, Laptrust)

05 **2013**
Best Company to work for – Think Business Awards;

06 **2015**
Fastest Growing Bank in Kenya – Think Business Awards; Secured KES 4.3B to boost SME business lending

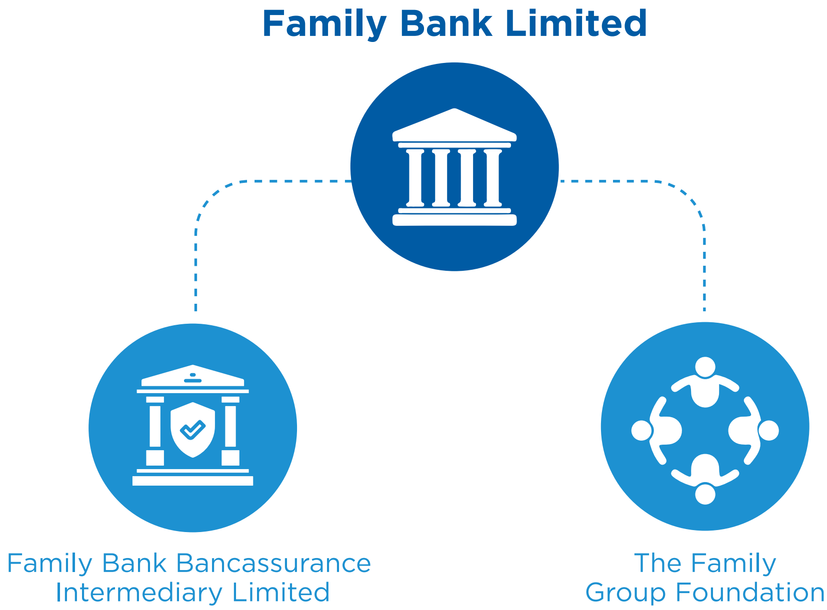
07 **2017**
Awarded Best SME Bank in Kenya – Bankers Africa Awards

08 **2021**
147% subscription of Corporate Bond(KES 4B)
Awarded, Overall Best Bank in Digital experience and Customer responsiveness and Best Tier 2 overall in the banking industry, Kenya Bankers Association survey for 2021

09 **2022**
Awarded Best Tier 2 Bank in Customer Experience and 2nd Best Overall Bank in Customer Experience, KBA Customer Satisfaction Survey

Our Structure

The Family Bank Group comprises the Family Bank Limited and the Family Bank Bancassurance Intermediary Limited (FBBIL). FBBIL, a fully-fledged subsidiary of Family Bank Limited, was established in 2008 and is licensed by the Insurance Regulatory Authority (IRA). The Group has also established a foundation – The Family Group Foundation, which oversees the environmental and social responsibility initiatives of the Group.



Family Bank Bancassurance Intermediary Limited

Family Bank Bancassurance Intermediary Limited (FBBIL) is a leading provider of risk management and bancassurance solutions. The agency's main objective is to address the insurance needs of Kenyans across the wide economic strata. Through partnerships with reputable insurance companies in the industry, FBBIL offers a full bouquet of innovative insurance products and advisory services primarily using the bancassurance model; the provision of insurance and banking products and services through a common distribution channel and to the same client base.

In the fifteen years since its establishment, the intermediary has recorded impressive growth year-on-year, attaining a gross written premium of KES 1.2 billion as at December 2022, from general, life and medical insurance businesses. This growth is attributed to unparalleled customer experience, technological innovations in underwriting and distribution and new products. The agency has more than 50 members of staff who are adequately experienced and qualified to handle all insurance needs of our customers leveraging the Bank's 93 branches across the country.

The services include:

- Advisory services on property, liability, marine, agriculture and medical insurance.
- Life assurance products for corporates, groups and individuals.
- Group and staff medical scheme administration services.
- Claims and benefits management.
- Advisory on insurance premium financing.

All these services and products are offered through an integrated and robust bancassurance IT system that ensures seamless services across all branches countrywide.

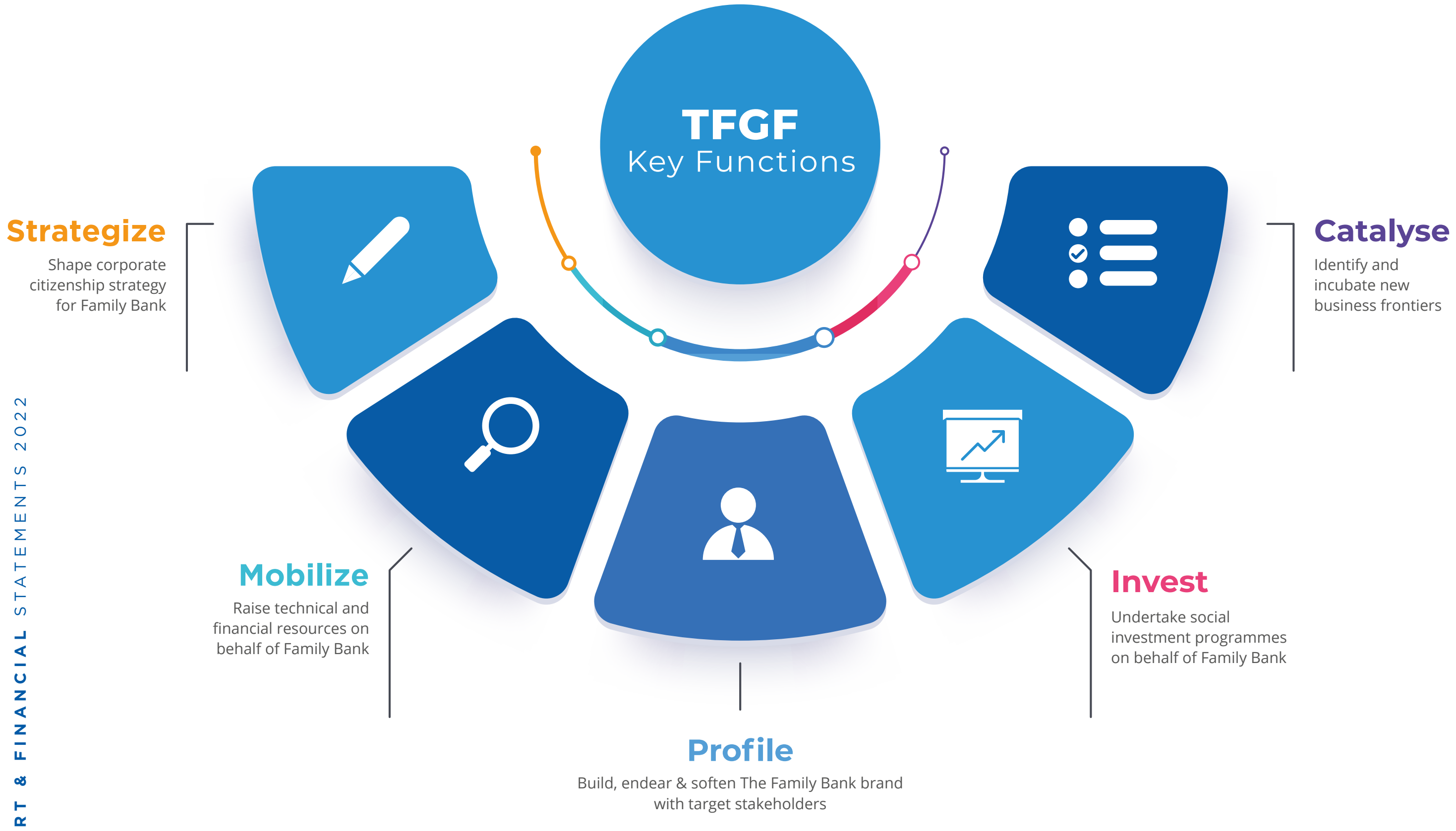
The Family Group Foundation

The Family Group Foundation plays a key role in advancing the social and environmental responsibilities of the Bank. The Foundation was established in 2012 and is registered as a Trust. It focuses on education, environmental conservation, mentorship and shared value initiatives around enterprise development, ICT skilling and agribusiness. The value creation initiatives of the Foundation are detailed under the topic on Value Creation.

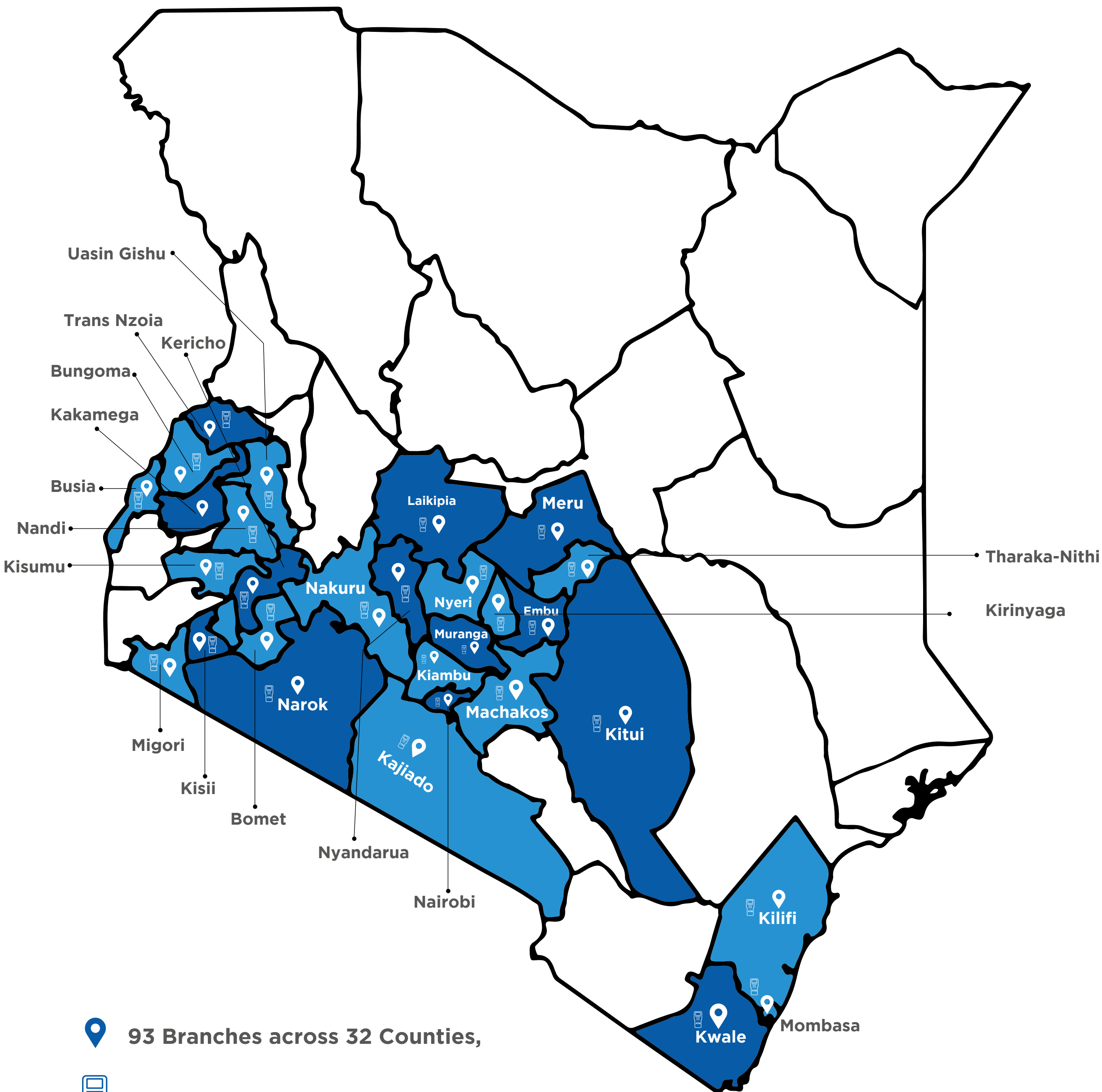
The Family Group Foundation (TFGF) was established by an associated group of companies, namely Family Bank, Kenya Orient Insurance, and Daykio Plantations. The Foundation's mission is to empower families by catalyzing transformative change for wealth creation by building a more inclusive society through sustainable community investment programmes in education, health, agriculture, youth empowerment, and entrepreneurship development through a Shared Value Initiative.

The Family Group Foundation is deliberate in its strategy execution, more so within the global context so that we can build a healthier, more resilient, and sustainable world and deliver real-world benefits to global challenges.

Our Shared Value Initiatives are focused on youth and women empowerment centered on the following pillars, namely, access to quality secondary education through scholarships for bright and needy students, nurturing sports talent through Family Group Eldoret Half Marathon, inclusive education for children with special needs dubbed Champions Run for Autism, agribusiness for climate-resilient food and nutrition security, construction in adherence to green building technologies, ICT, water, sanitation and hygiene (WASH) and environmental conservation for climate change adaptation.



Our Presence



93 Branches across 32 Counties,

144 ATMs

5,600 Independent banking agents (PesaPap Agents)

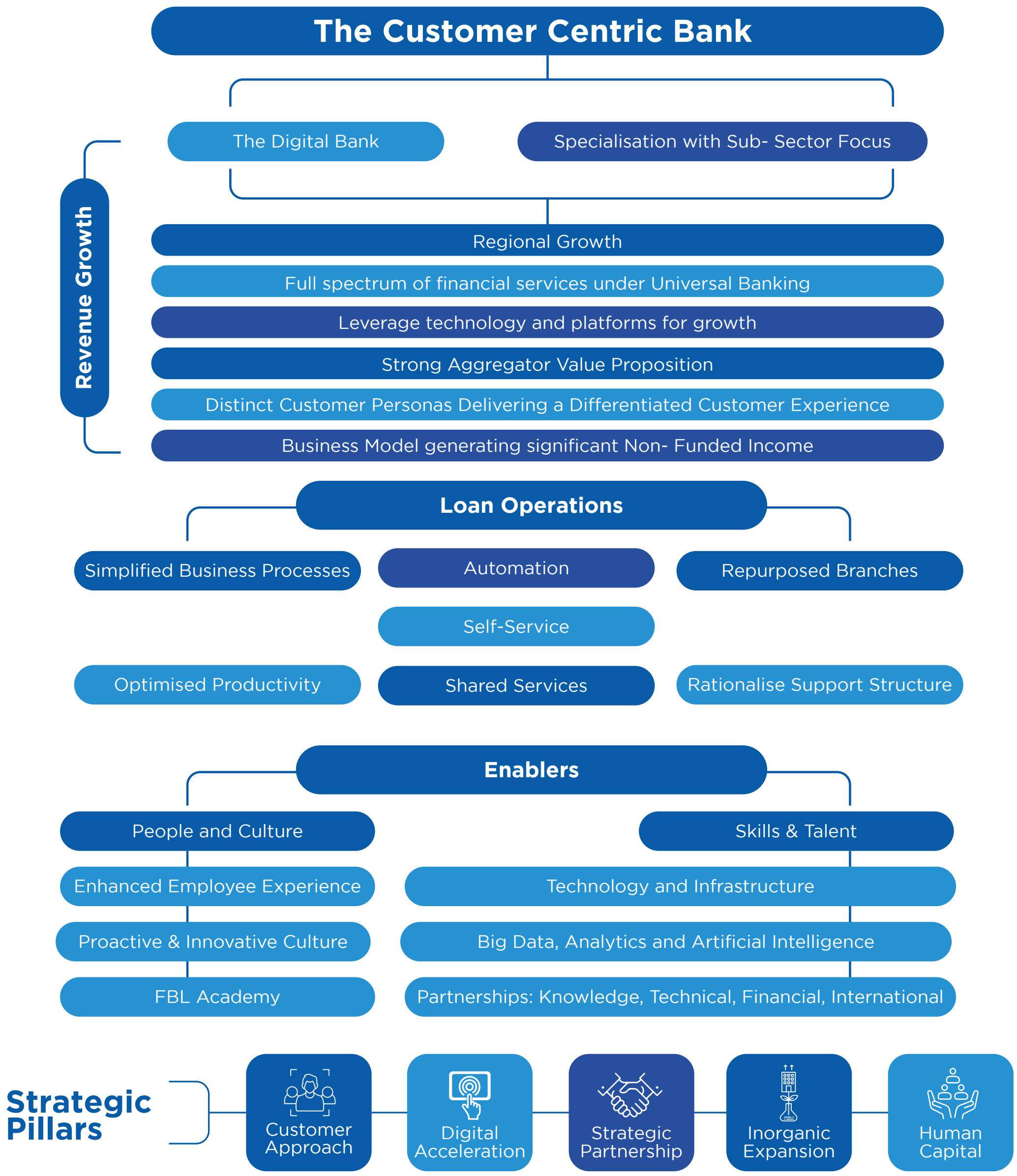
Our Strategy

The vision of Family Bank is to be the financial institution that leads in the positive transformation of people's lives in Africa. In pursuit of this vision, the Bank has put in place a robust strategy anchored on:

- Creating a customer-centric financial institution known for its unique and holistic customer and user experience.
- Creating centers of excellence with specific sub-sector focus to support our partners and customers to achieve more and
  deliver better value by offering end to end value chain financial services and creating access to knowledge, networks and affordable financing.
- Creating a digital platform for holistic financial services accessible anywhere, anytime and anyhow, and serving the interests of the different stakeholders.

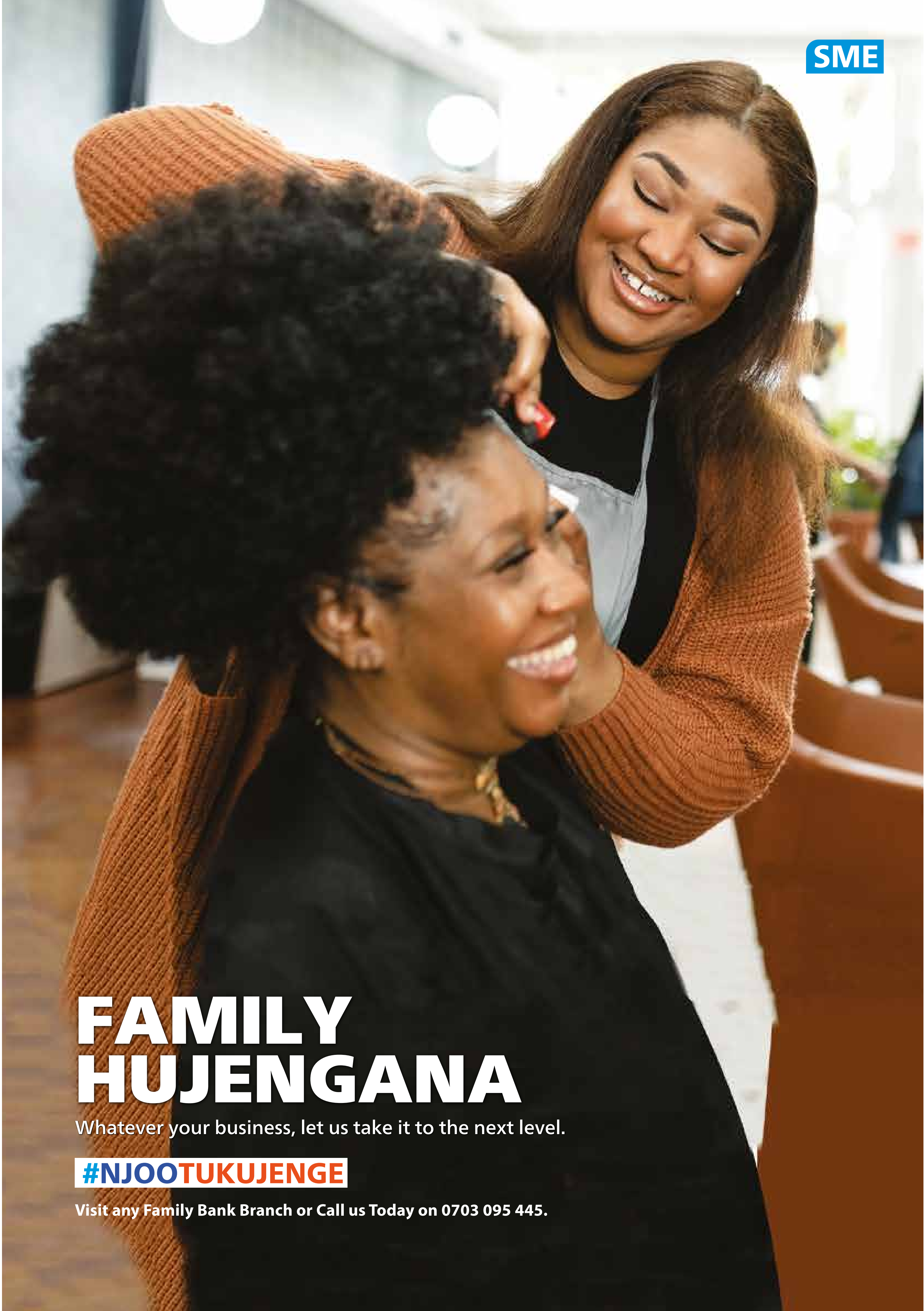
Lean operations that encompass simplified business processes, simplified products, process automation, repurposed branches, building self service capabilities, strategic partnerships and a rationalised support enables the bank to tap into the above strategic opportunities.

To realise these opportunities, the bank will leverage on strong relationship management driven by in-depth understanding of the customer (360° view of the customer), a highly skilled, innovative and engaged workforce, superior technology and analytical capabilities, a high performance-customer oriented culture and a strong brand with an emotional connection to the customers.

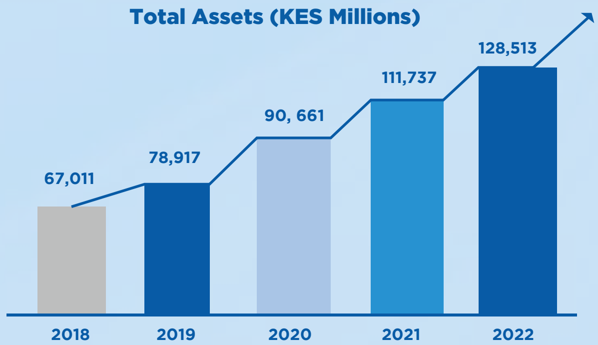


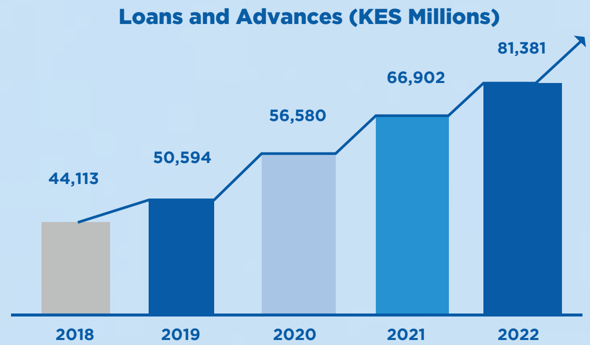
Our strategy making process involves detailed assessment of the operating environment, assessment of the risks facing the Bank and the mitigation strategies, as well as opportunities presented to the Bank and how they may be exploited. The Bank also analyses past performance and draws from past experiences in determining future strategic direction.

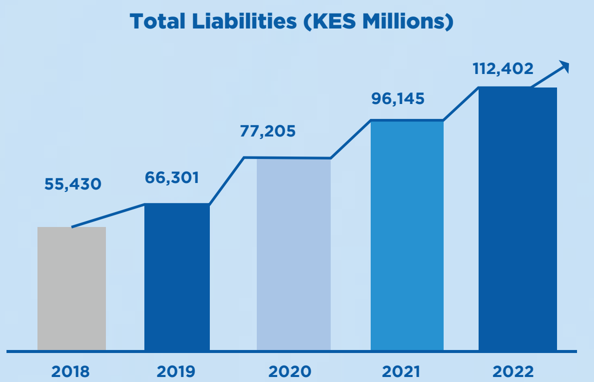
To understand how our strategy relates to the Bank's ability to create value in the short, medium and long term, refer to the chapter on "Our Value Creation".

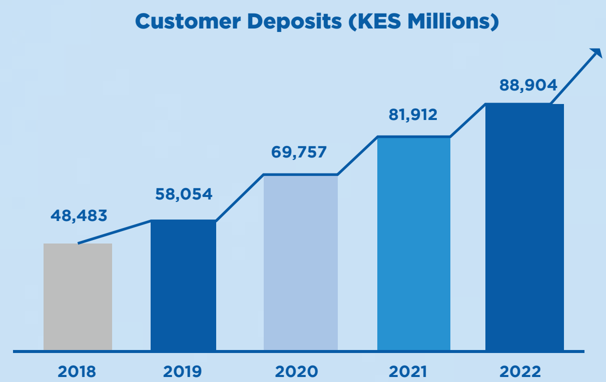

SME
FAMILY
HUJENGANA
Whatever your business, let us take it to the next level.
#NJOOTUKUJENGE
Visit any Family Bank Branch or Call us Today on 0703 095 445.

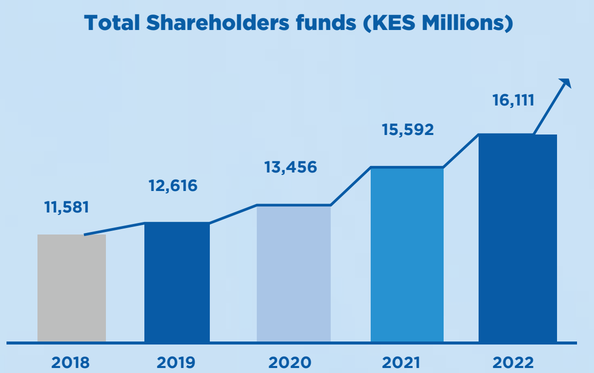
Our Five -year Performance

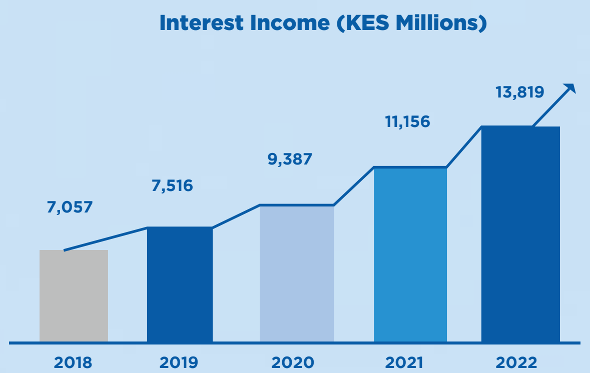


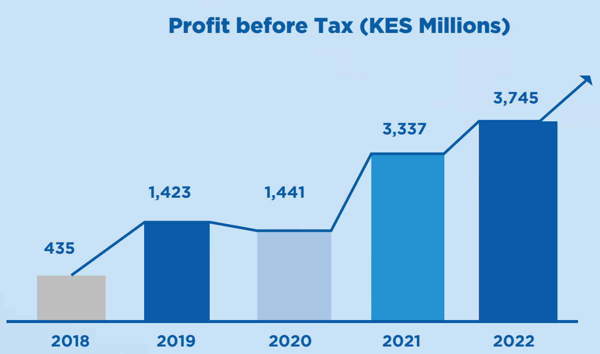












Corporate Information

DIRECTORS

Non-Executive
Dr. Wilfred D. Kiboro - Chairman
Mr. Francis G. Mungai - Vice Chairman
Mr. Titus K. Muya
Mr. Lazarus Muema
Ms. Mary N. Mburu
Mr. David M. Ichoho (Appointed March 2023)

Executive
Ms. Rebecca Mbithi - Managing Director & Chief Executive Officer

COMPANY SECRETARY

Eric K. Murai
Certified Secretary
8th Floor, Family Bank Towers,
Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi
Tel: 254-703 095 000/ 703 095 445
Email: info@familybank.co.ke
Website: www.familybank.co.ke

REGISTERED OFFICE

Family Bank Limited
8th Floor, Family Bank Towers, Muindi Mbingu Street
P.O. Box 74145- 00200, Nairobi
Tel: 254-703 095 000/ 703 095 445
Email: info@familybank.co.ke
Website: www.familybank.co.ke

AUDITOR

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

LEGAL ADVISORS

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

Correspondent Banks

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

DZ Bank AG
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
Mr. David M. Ichoho

Risk Management and Compliance Committee

Ms. Mary Mburu - Chairperson
Mr. Lazarus Muema
Mr. David M. Ichoho

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

Projects Committee

Ms. Mary Mburu – Chairperson
Mr. Titus K. Muya
Mr. Francis Mungai
Ms. Rebecca Mbithii

Nomination Committee

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

Board Of Directors

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

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

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

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

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

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

Board Of Directors

Practice and Management.

Mr. Titus K. Muya
Non-Executive Director

Mr. Titus Kiondo Muya, popularly known as TK, is one of Kenya's most outstanding and visionary entrepreneurs and founder of several successful family-owned businesses spanning across the banking, insurance, real estate and agriculture sectors. After a successful career in the public service in the 1960's, 70's and early 80's, TK ventured into entrepreneurship.

He founded Family Bank in 1984 and served as the Bank's Chairman and Chief Executive Officer until June 2006. From 2006 to 2012, he served as a Non-Executive Chairman of the Bank. Family Bank was established as a financial institution to serve the needs of the unbanked population. TK envisioned accessible and affordable financial services as a tool for poverty alleviation and economic empowerment of communities.

He is also associated with other companies including Daykio Plantations Ltd, Kenya Orient Insurance Ltd, Kenya Orient Life Assurance Limited and Orient Asset Managers among others on whose Boards he sits or is represented in different capacities. He has also been a champion of social empowerment through education, health and environmental conservation, especially through The Family Group Foundation which today offers scholarships and mentorship to over 1000 children in all the 47 counties.

In recognition of his entrepreneurship, leadership and contribution to the banking industry, TK was awarded the Trailblazer Award by the Marketing Society of Kenya. In December 2011, the late former President Mwai Kibaki bestowed the award of the Elder of the Order of the Burning Spear (EBS) on TK in recognition of his distinguished service to the nation through entrepreneurship and his contribution to the banking industry.

Mr. Lazarus Muema
Non-Executive Director

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

Currently, he is a Pension Consultant with Penplan Services Limited, a Pensions Consultancy Firm that he founded in 2011. He is a board member in various companies including Kenya Orient Insurance Company and East African Gasoil Company. He is also a board member of The Mt. Kenya Academy Foundation. He is currently the Board Chair of Riscura Solutions (Kenya) Ltd, an investment consulting firm with its holding company based in South Africa. He is also a former Chairman of the Association of Retirement Benefits Schemes of Kenya, Bright Technologies Ltd and Nanga Investments Ltd.

Board Of Directors

Ms. Mary Njeri Mburu
Non-Executive Director

Ms. Mburu was appointed to the Board of Family Bank in October 2020. She holds a Masters degree in Business Administration (MBA) from United States International University (1994) and a Bachelor of Science degree in Agriculture from the University of Nairobi. She is currently pursuing a Doctorate in Business Administration (DBA) in Global Supply Management. Professionally, Ms Mburu is also a Certified Contracting Officer Representative (COR) in Project Management.

Ms. Mburu has worked as a Senior Acquisition and Assistance Specialist (Senior A&A Specialist) at USAID overseas Missions designated as a Third Country National (TCN) for six years. Before her overseas assignment, she worked at USAID Regional Mission in Nairobi for 7 Years as an Acquisition and Assistance specialist (A&A Specialist). Ms.Mburu has vast experience in Project Management in Economic Growth, Education, Governance and Infrastructure. Previously, Mary worked for the Kenya Pipeline Company as a Senior Officer in Procurement.

Mr. David Muni Ichoho
Non-Executive Director

Mr. Ichoho joined the Board in March 2023. He is currently serving as the Chairman of the Board of KTDA as well as its subsidiaries, a position he has held from June 2021 to date. He has over 20 years of experience and has worked in various capacities in the insurance industry, manufacturing and processing, tax and human resources. He has held senior management positions in UAP Insurance Co. Ltd; Bank of America - Texas, USA; Texas Instruments – Texas US; The Ministry of Gender, Sports, Culture and Social Services - Kenya; Kenya Forest Services/Kenya Forestry College and at the Kenya Tea Development Agency Holdings Limited.

Mr. Ichoho holds a Masters in Business Administration (MBA) in Human Resource Management from Kenyatta University, a BA in Economics and Geography from the University of Nairobi and a Higher National Diploma in Human Resource Management from the Institute of Human

Board Of Directors

Resource Management (IPM Kenya).

Ms. Rebecca Mbithi
Managing Director & Chief Executive Officer

Rebecca Mbithi was appointed Managing Director and Chief Executive Officer in 2019 and has presided and successfully transformed the Bank into a profit-making entity. She has been instrumental in developing a niche and placing emphasis on positioning Family Bank as an SME Bank.

She is a seasoned professional and a respected lawyer with an extensive leadership background in various organizations. Ms. Mbithi previously served as the Bank's Company Secretary & Director of Legal Services a role she took up in 2015. This experience preceded her work at Kenya Tea Development Agencies (KTDA), where she served as Head of Legal and Regulatory Affairs and at Rift Valley Railways, where she also served as Company Secretary & Legal Counsel.

Ms. Mbithi holds an MBA with a concentration in Strategic Management from the United States International University and an LL. B degree from the University of Nairobi. She is a CPA and a member of the Institute of Certified Public Accountants of Kenya, a Certified Secretary and a Member of the Institute of Certified Secretaries ICPS (K), an advocate of the High Court of Kenya and a member of the Law Society of Kenya. She is also a Certified Executive Coach and has attended various courses including Executive Leadership at Strathmore Business School.

She is the current sitting Vice Chairperson of the Kenya Bankers Association and also a Board Trustee of The Family Group Foundation, a sustainability vehicle of the Bank. She was also appointed by the President, H.E Dr. William Ruto, to the Steerco of the National Drought Committee in 2022.

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

Eric holds a Master of Laws (LL.M) and a Bachelor of Laws (LL.B) from the University of Nairobi and a BSc. in Applied Accounting from Oxford Brookes University. He is an advocate of the High Court of Kenya, a member of the Law Society of Kenya and a member of the Institute of Certified Secretaries. He is also a certified professional mediator. Eric is the Company Secretary and Chief Legal Officer. He was appointed Company Secretary and Head of Legal Services in October 2019.

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

Chairman's Statement

Dr. Wilfred D. Kiboro Chairman- Board of Directors

Dear Shareholders,

On behalf of the Board of Directors of Family Bank Limited, I am pleased to present the 2022 Annual Report and Financial Statements at our 16th Annual General Meeting.

The Business Environment in 2022

Different macro-economic factors defined the market performance for 2022. The Russia-Ukraine war led to the sharp rise in commodity prices like food and petroleum. As a result, this contributed to the effect of slow global growth due to trade supply chain disruption.

Kenya and the global economies experienced a rise in inflation with the Kenya National Bureau of Statistics (KNBS) showing that inflation peaked to 9.6% in 2022, the highest ever seen in the last 10 years. With many countries establishing economic stimulus to mitigate the spill over effects of the pandemic, the rise in inflation was expected.

Globally, central banks raised interest rates at a much faster pace in 2022 resulting in the market preference in short tenor investments. Kenya was not left behind in this. In 2022, the Central Bank of Kenya raised its benchmark interest rate by the biggest margin in more than seven years by 75 basis points to 8.25% to anchor inflation, setting stage for costly credit in a recovering economy. With higher interest rates, also due to increased government borrowing, the cost of funds increased resulting in higher interest loans for our customers.

Higher interest rates impact the cost of doing business for companies. Over time, higher costs and less business could mean lower revenues and earnings for public firms, potentially impacting their growth rate and their stock values.

The early electioneering preceding the August General Election in Kenya in 2022 spread uncertainty and resulted in the dampening of business confidence across different sectors. However, we are glad to have witnessed a peaceful election with a seamless transfer of power which restored investors' confidence and saw the market gain in the Nairobi Stock Exchange raise KES 102.6 billion, the highest single day raise in over four and a half years.

Kenya faced and continues to face one of the longest and most severe droughts, worst in 40 years, in arid and semi-arid areas that has left millions of Kenyans starving and agriculture production on a fast decline.

It is against this that the national government rallied the public and private sector to champion for sustainable climate-sensitive initiatives such as the Wakenya Tulindane Campaign. As such, H.E. President William Ruto formed a National Steering Committee on Drought Response in which Family Bank is among the five banks represented in the committee. These banks and several other corporate entities are helping mitigate the short-term effects of drought while also championing long-term measures to mitigate climate change effects and boost food production.

Banking Sector Performance

The Central Bank of Kenya (CBK), through its top policy-making organ, the Monetary Policy Committee (MPC) raised the benchmark lending rate for the first time since 2015 in May 2022 to hedge the economy's exposure against rising inflation and global risks. The MPC decided to raise the Central Bank Rate (CBR) from 7.5% in May 2022 to 8.25 % in September and hit a rate of 8.75% in November.

The Kenyan economy in 2022 continued to display resilience. The CBK estimated a 5.6% increase in GDP for 2022 with the private sector's credit growth rising to 12.5%. This growth was catalysed by various sectors including the manufacturing sector, transportation and communication, trade, business services and consumer durables.

The banking sector particularly depicted unprecedented resilience to post strong and adequate liquidity and sufficient capital positions. In addition, the sector took a front position in the climate action conversation through the Climate Related Risk Management, by the regulator, which aims to sensitize the banking sector on the mitigation of climate-related risks and harnessing of opportunities in climate investments. This has embedded climate risk into banks' credit risk management frameworks to better transform lending practices.

Our Financial Performance

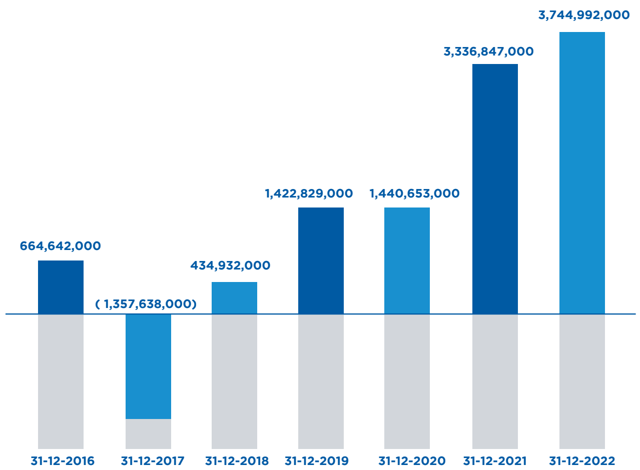
Most of the business were still recovering from the effects of the COVID-19 pandemic. However, we must acknowledge the efforts by the banking sector and the Government to cushion businesses especially, the Small and Medium-sized enterprises.

With the vaccination drive and opening of local and international markets, we saw resilience and growth of our customers in the logistics, water and sanitation, tourism

Chairman's Statement (Continued)

and hospitality and retail sectors.

It is against this backdrop that Family Bank registered a Profit Before Tax (PBT) of KES 3.7 billion, marking a 12.2% year-on-year growth. The growth in earnings was catapulted by double-digit growth in revenues, customer loans and prudent investment decisions. Additionally, the Group's balance sheet expanded with total assets increasing by 15%, growing faster than the industry, from KES 111.7 billion to close at KES 128.5 billion. To further affirm that our diversification strategy continues to pay off, the non-funded income grew by 10.6% to KES 3.4 billion.



Our investment in digitization continues to bear fruit with PesaPap registering KES 5 billion in the total value of mobile loans disbursed in 2022. We have witnessed over 80,000 increase in active users over the last 5 years on our mobile application.

There was a significant reduction in the Group's loan loss provisions by 35.6% to settle at KES. 495.1 million against KES. 768.1 billion recorded in 2021. Net non-performing loans increased by 18.4% to close at KES 5.6 billion in 2022 compared to KES 4.8 billion in 2021. To continue supporting the balance sheet growth and capital ratios, we continue to honour our investors who have shown confidence in the Bank. In June, last year, we paid investors an interest rate of 12.5% on the tranche of our corporate bond while investors of the fixed-rate notes also received interest at the set rate of 13%.

Issuer Rating Recognition

We are pleased to have been assigned a national scale issuer of a stable outlook as a Bank pegged on a solid market position, a robust funding base and good liquidity from Global Credit Rating, a South African rating firm. Guided by our aggressive 5-year plan, this rating underpins our continued foray into new territories as we seek to improve on this rating by strengthening our capital to achieve a reasonable capital buffer for tier I status and improving our portfolio quality by achieving a below-industry-average non-performing loan ratio.

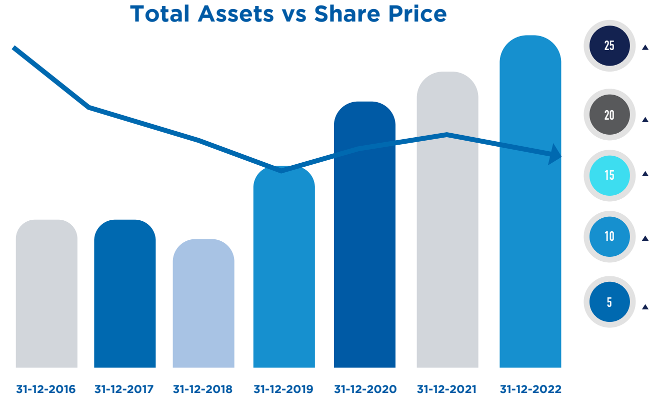
Corporate Governance

I am pleased to announce that Mr. David Muni Ichoho joined the Board of Directors in March 2023. He is currently the Chairman of the Kenya Tea Development Authority (KTDA). We are glad to have him on the Board to offer his expertise as we grow together towards tier 1 status.

Dividends Pay-out

This year the Directors proposed a KES. 798 million, KES 0.62 per share, dividend paypayout. In 2021, the dividend payout was KES 0.83 per share. The reduction in the dividend payout is in line with the Bank's performance in 2022. The Bank remains committed to providing its shareholders with a fair return on their investment.

Total Assets vs Share Price



2023 Outlook

According to the latest Global Economic Prospects report by the World Bank, 2023 global growth is expected to experience only a 1.7% growth compared to an expected growth of 3% in the face of elevated inflation, higher interest rates, reduced investment and disruptions caused by Russia's invasion of Ukraine.

In Kenya, despite global uncertainties, the economy is anticipated to remain robust in 2023, growing at a projected 5%, pulled down by a persistent rise in commodity prices, global events and a high risk of debt distress. In addition, the current food security and climate change challenges have led to severe crises including increased poverty, widening inequality across regions and households and increased incidents of social conflicts due to competition for resources such as water.

However, there is an opportunity for the economy to register a remarkable upward trend as the national government focuses more on fiscal consolidation efforts and debt sustainability measures guided by the 2023 Medium-Term Debt Management Strategy.

As we near the end tail of our 2020-2024 strategy, the

Chairman's Statement (Continued)

Bank's 2023 key parameters are anchored on six pillars of digital transformation, brand positioning, a mix of both organic and inorganic growth and a key focus on people and infrastructure upgrade. Taking a laser focus on our organic forms of growth, we intend to further strengthen our balance sheet, focusing on growing revenue, increasing our customer base and optimizing our resource utilization.

To support these, we are also keen on our inorganic growth that will be leveraging on a local acquisition as well as expanding the portfolio of our finance partners that will enable us to continue extending credit to key focus sectors in the market.

We are currently exploring opportunities across East Africa, Central and West Africa markets in specific Uganda, DRC, Tanzania or Ethiopia. Our team is currently undertaking the necessary research that will inform our decision. Our focus is on an opportunity with synergistic benefits to the Bank and aligns with our strategic focus and objectives. The most important being to find a partner who is a right fit for Family Bank. This will also require additional capital and as a Board we are exploring our options and we shall keep the shareholders abreast as we will be coming to you to raise capital for expansion for necessary approvals.

Acknowledgements

On behalf of the Board of Directors, I would like to thank the executive management and staff of Family Bank for a strong 2022. We must maintain our determination to navigate the evolving markets and global conditions. The progress we continue to witness signifies our ability to remain focused on our aggressive strategic plan despite the uncertainty faced during this unprecedented time.

More specifically, I would like to commend and thank our customers and shareholders for their continued vote of confidence in the Bank. As we gear up for the next level of growth, our commitment to serving you remains rooted in our purpose to enable you to create and sustain wealth.

I would like to reiterate the Board's commitment to its fiduciary duties and reaffirm that the shareholder's interests have always been and continue to be at the heart of the Board's actions.

Thank you.

Dr. Wilfred D. Kiboro
Chairman- Board of Directors

Statement From The CEO

Ms. Rebecca Mbithi
Managing Director & Chief Executive Officer

Our Pitstop, Aligning Family Bank for Acceleration

Dear Shareholders,

Management under my leadership has strived to drive value to our shareholders and customers and to equip the staff with skillsets and leadership capabilities.

2022 was the third year of implementation of our five-year 2020-2024 Strategic Plan, dubbed "Take-Off", with key focus areas for our execution centered on customer centricity (with branches at the center of the execution), optimal staffing and capacity building to drive a high-performance culture and end-to-end customer self-onboarding with heavy investment on our digital platforms.

In this third year, we were able to take stock of the journey we have been on, the successes, challenges and lessons learnt. All these have enabled us to position the Bank for future success as we set our eyes on the prize and the vision for the journey ahead.

The Macro Environment

Kenya's economy in 2022 expanded by 4.8% according to the World Bank, a 2.7% deceleration in the GDP compared to the strong rebound from the Covid-19 crisis we experienced in 2021. It is to be noted that the adverse weather shocks we have experienced in terms of severe drought and immense floods in different parts of our country have resulted in a major drag on our economy and we have seen that with the rising inflation and food crises, an impact that we can all bear witness to.

As a result, the Central Bank of Kenya (CBK) tightened the monetary policy to curb inflation and protect our shilling from depreciation. CBK raised the policy rate by a cumulative 250 basis points since May 2022. Globally, central banks raised interest rates at a much faster pace in 2022 resulting in the market preference for short tenor investments; higher interest rates impact the cost of doing business for companies. Over time, higher costs and less business could mean lower revenues and earnings for public firms, potentially impacting their growth rate and their stock values.

Family Bank focused on supporting the recovery of our customers, especially the micro, small and medium-sized employers in various sectors such as general trade, logistics and transport, manufacturing and hospitality, among others.

Kenya's banking sector is seeing rapid digitization and adoption of alternative service delivery channels such as the use of mobile applications, internet banking and agency banking. To remain competitive, banks are focused on digitizing delivery channels to reach customers and introducing new innovative products. In 2021, CBK noted the introduction of 71 new products, mostly related to money remittance services and contactless cards, into the market. The number of bank agents has also grown by a compounded annual growth rate of approximately 10% between 2018 and 2021.

Family Bank has not been left behind in investment in innovative ways of banking. The post-pandemic consumer priorities have changed, requiring banks to rethink how they meet customer needs. This means that our customers are looking for a superior customer experience that meets their personalised needs. Our strategy prioritises the understanding of our customers' journeys. This means that we have invested in understanding the customer experience journey through in-depth interviews with our customers and staff to allow customers to derive value from their banking experience with ease and effectively. The overarching strategy is to ensure that we provide excellent customer experience and responsiveness across all our touchpoints.

We are proud and honoured that our efforts to provide excellent solutions and superior customer experience have been recognised in the Banking Industry Customer Satisfaction Survey 2022 by the Kenya Bankers Association. For the third year running, our customers have voted us as the best Tier Two bank and the overall best bank in customer responsiveness and satisfactory digital experience. Family Bank was also voted the overall second-best bank and best Tier Two bank in customer responsiveness and digital banking experience in the 2022 Survey.

Our Business Growth and Performance

We maintained a growth trajectory and our fundamentals continue to be on steady growth, positioning us as a leading Tier Two bank in the market. We have been able to drive strong double-digit growth across key metrics over the last five years.

Our key focus for 2022 was to cushion our customers to navigate a tough operating environment while driving revenue growth for the Bank through both funded and non-funded income revenues.

Our Profit Before Tax for the Group for the Full Year 2022 stood at KES 3.7 billion against KES 3.3 billion registered in

Statement From The CEO (Continued)

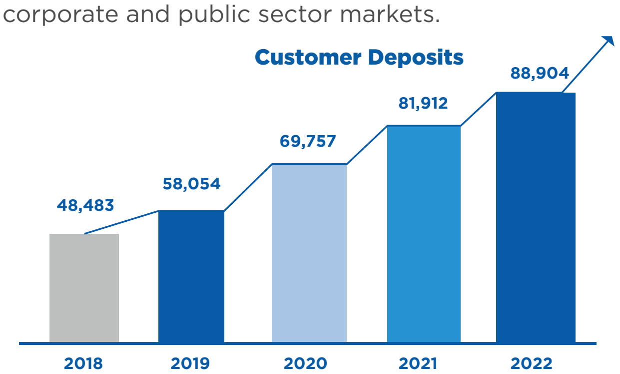
2021, a 12.2% growth. Earnings Per Share grew by 3.6% to KES 1.72 at the end of 2022.

In line with this, on the back of the strong performance, the Board of Directors have recommended KES 798 billion dividend payout for the year ended 31 December 2022 subject to shareholders' approval during this Annual General Meeting.

In KES Billion			
	2021	2022	Change
Customer deposits	81.9	88.9	8.5%
Loan book	66.9	81.4	21.6%
Total assets	111.7	128.5	15.0%
Interest income on investment in government securities	2.3	3.1	29.9%
Net interest income	7.8	9.0	15.4%

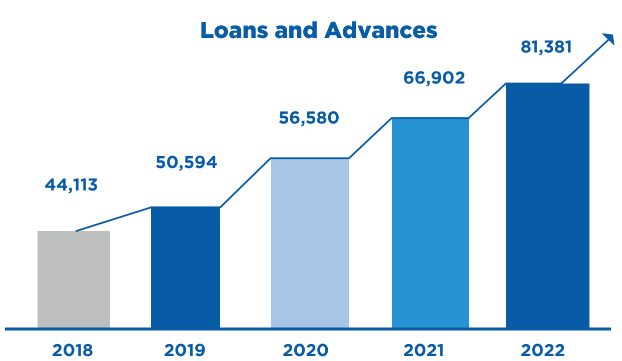
Customer Deposits

Our customer deposits grew by 8.5% to close at KES. 88.9 billion compared to KES 81.9 billion recorded in a similar period in 2021 supported by an aggressive deposit mobilization strategy for retail, institutional, corporate and public sector markets.



Loans Advanced to Customers

In 2022, our loan book expanded by 21.6 % to close at KES 81.4 billion as we increased our lending to various MSMEs as well as climate-friendly investments and women-led businesses in education, health, agriculture, energy and manufacturing sectors.

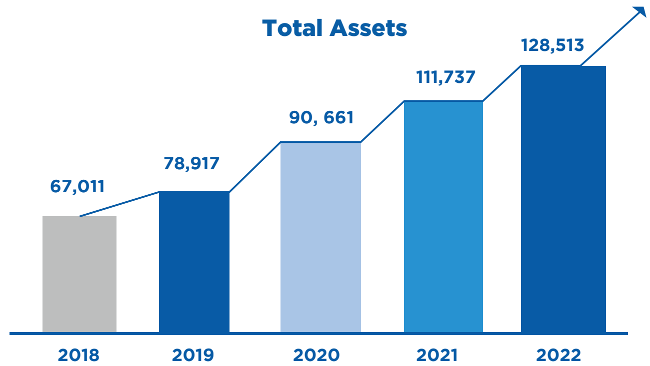


Operating Income

The Group's total revenues increased by 10.6% to KES 11.9 billion driven by 10.7% growth in net interest income that stood at KES 8.6 billion largely as a result of exponential growth in interest income from loans and that of government securities which grew by 19.2% and 29.9% respectively.

Total Assets

In 2022, the Group's total assets expanded by 15% from KES 111.7 billion to close at KES 128.5 billion as we sought to further strengthen our balance sheet through the adoption of additional core capital and long-term debt while driving operational efficiencies across our businesses.



Capital Position

The Bank capital and liquidity ratios remain strong, adequately above the regulatory requirement. Liquidity stood at 34.6%, significantly above the minimum requirement of 20%. The core capital ratio closed at 19.5% above the statutory requirement of 14.5%.

Alignment for Success: Key Reasons Behind the Success

In 2022, we continued to focus on driving product innovation, customer experience across digital and in-branch services, branch network expansion, cost-efficiency strategies and employee engagements.

We focused on the diversification of product offerings through the financing of second-hand importation, Fuzu Premier Account and innovative finance for MSMEs in the water and sanitation sector. Through our fundraising partners, having raised over USD 56 billion, we have been able to increase our lending to various MSMEs as well as climate-friendly investments and women-led businesses in education, health, agriculture, energy and manufacturing sectors. This is evidenced by the growth of our revenues, amidst the complex operating environment.

Deepening Digital Investment

We continue to prioritize the digitization of our systems to drive efficiency and improve the capacity of our systems. Our heavy investment in 2022 in innovation and digitization resulted in overall superior customer experience across branches and digital platforms. Family Bank operates a multi-channel distribution network through our branch network, agents, ATMs and digital platforms.

Statement From The CEO (Continued)

Through our robust IT infrastructure, we had a remarkable 97% uptime on our IT systems resulting in seamless operations, faster service and secure access to our services for our customers.

Consequently, the number of transactions conducted through our non-branch channels grew to 90%, driven by mobile banking, internet banking and merchants. The number of internet banking users has more than doubled over the last 3 years and we have seen a strong recovery in growth of internet banking transactions 2022 due to launch of Family Pay to enable bulk payments.

Our investment in our mobile application PesaPap has contributed to 52% of the Bank's revenue, signifying the consumer trend and shift to digital channels.

Our mobile application PesaPap allows our customers to open accounts on mobile, access to loans and business floats, card management, cardless withdrawals and money transfer and bill payment, savings and products for wealth creation.

Our People, Our Heritage

We have made deliberate and significant investments in people. One of the biggest areas you impact a business is in your ability to help select, coach, and develop leaders. We value our employees and we have taken a bold human resource approach from the board, management and branch levels in order to build a high-performing culture that promotes culture as a key enabler for strategy. Currently, the Bank has over 1700 staff.

In partnership with Strathmore University Business School, one of the world's leading and respected institutions, we held various programmes for the Board, Executive Committee, Senior Management and young and future leaders on diverse leadership, cultural and management facets. As a result, staff costs grew by 33% due to the Group's investment in training staff and attracting top-notch talent to support our aggressive strategy and to deliver exceptional service to the customers.

Public Sector Engagement

The public sector continues to be a key customer segment that we continue to support. Family Bank is one of the few banks that has a dedicated public sector team led by the Chief Officer- Public Sector. Our strategy is to drive value across the public sector in order to empower local governments, parastatals, ministries and other public sector stakeholders to serve their customers better by providing innovative ways of accessing banking services and solutions to meet their overall financial objectives. This has been made possible through courtesy visits for the new government officeholders and relationship-building efforts.

In line with this, Family Bank was appointed by the Ministry of Cooperatives and Micro, Small and Medium Enterprise (MSME) Development as one of the custodians for the government's financial inclusion fund, commonly known as, Hustler Fund. Family Bank was one of the two banks selected to offer custodial services. This goes to shows the confidence of the market in our strategic direction in bringing more people into the financial access pool and contributing to financial inclusion of the micro and small enterprises.

Shared Value Initiatives

We believe that we must drive profit with purpose, and we have a role as the private sector to address social challenges and drive social good in the areas that we operate. We made a deliberate effort to reposition to shared value and drive social good through The Family Group Foundation's unique, niche and distinct programmes through positive corporate citizenship and high-value strategic partnerships to help influence government policy on key areas of global concern.

The Kenyan Government has been proactive in addressing the short-term and long-term effects of climate change in our country. His Excellency President William Ruto formed the National Steering Committee on Drought Response to lead a private sector effort to mitigate the drought situation in the country; Family Bank and several other private sector leaders were appointed to the committee.

Statement From The CEO (Continued)

In the area of climate change, through a financing deal with BasiGo Ltd, an e-mobility start-up and financing company supplying electric bus services to sub-Saharan Africa, we have enabled players in the public service vehicle industry to access flexible financing options and promote the use of electric buses in Kenya to cut down on greenhouse gas emissions.

In addition, we are passionate about the long-term approach to reafforestation, and we have embarked on the restoration of 10 acres of the Ngong Forest in partnership with the Green Blue Africa Foundation.

Our approach to this is unique in that we involve the local community, especially youth and women, in the management of the restoration as we fight desertification and educate the community on the benefit of preserving natural resources in Kajiado County.

In the area of economic empowerment, a project that is close to our heart is the Tufuzu Youth Entrepreneurship Development Project. Through the USAID Tumikia Mtoto Project in partnership with World Vision Kenya, we have imparted technical skills development and provide labour market linkages to over 500 vulnerable young women and adolescent girls in Nairobi and Kiambu Counties to enhance their employability, income and livelihoods.

Our dear investors, detailed information on our shared value initiatives can be read in the pages ahead under Our Social Investment.

What next?

We entered 2023 with optimism having weathered one of the toughest periods since 2020. We are optimistic about Kenya's medium-term growth as the economy recovers from the polycrisis of the health pandemic, drought and effects of the Ukraine-Russia war. The World Bank predicts real GDP is anticipated to rise to 5% in 2023.

As we near marking 40 years since Family Bank was formed, the Bank is focused on accelerating our business to the next level to deliver on our critical initiatives in terms of recalibrating our performance, getting back even stronger by driving cohesiveness, agility, promoting a performance-driven culture, transparency, cross-functional coordination and optimizing the alignment of teams to our strategy as we continue to eye Tier 1 bank status. Climate change investments and Agri-financing remains at the core of our focus for retail and corporate clients. Digital and brand investments will also be key for us in 2023 as we seek to build a strong homegrown bank. We continue to explore opportunities for mergers and acquisitions with an eye for regional expansion as we seek to raise USD 100 million in capital to support our organic and inorganic growth.

I would like to express our appreciation to all Family Bank stakeholders, that is, our shareholders, customers, financial and strategic partners, the Board and Senior Management and the staff for staying true to the brand and for the resolute support in making sure we contribute to the overall growth of our economy and drive financial inclusion in Kenya and beyond. 2023 is the year for acceleration and alignment.

Thank you and God bless you.

Ms. Rebecca Mbithi
Managing Director and Chief Executive Officer

OUR VALUE CREATION

OUR VALUE CREATION

Family Bank creates and preserves value for its stakeholders by utilising the pool of resources available in the form of different capitals (financial, human, social and relationship, manufactured, intellectual and natural). The Group's ability to create sustainable value is reflected in increases, decreases and transformations of the capitals through the business activities that are part of our business model. The outputs and outcomes resulting from the business activities represent the value created for the Group, its stakeholders and the society.

The Capitals

Financial capital

Our financial capital consists of the pool of funds and assets that we maintain. It includes our shareholders' equity and funding from investors and customers. The financial capital enables the Bank to support our business, operational and lending activities.

Human capital

Our human capital consists of our employees, and all their skills, competencies, collective knowledge and experience and their innovative capabilities. Our human capital is key to our business success and a critical component in our ability to create and preserve value for our stakeholders.

Intellectual capital

Our intellectual capital consists of the policies, procedures, systems and knowledge cultivated in the organisation over the years. It includes our brand value, research and development, reputation, strategic partnerships and our unique product offering. Our intellectual capital gives us unique capabilities that set us apart and enable us to remain competitive in the marketplace.

Social and relationship capital

Our social and relationship capital is evident in the relationships, partnerships and collaborations we maintain with all our stakeholders including shareholders, investors, employees, suppliers and communities in which we operate. Through these relationships the bank has created goodwill amongst critical stakeholders that gives it a licence to operate

Manufactured capital

Our Manufactured capital consists of the properties, physical assets and digital infrastructure that supports our operations.

Natural capital

Our natural capital consists of the natural resources at our disposal. It also consists of the beneficial projects and partnerships that help to sustain the natural environment in which we operate.

Our Stakeholders

Positive relationships with our stakeholders are critical to the long term success of our business and our ability to continue creating and preserving value for all our stakeholders. We deliberately and regularly engage with our stakeholders as a way to build and sustain relationships, understand their needs and appropriately ensure their expectations are met.

Below are our key stakeholders, their material interests and how we engage with them.

Stakeholder	Material interests	How we engage them
Customers Our customers are who we are and why we exist as a bank. They are our key pillar to transforming lives. They help us achieve impact in society by ensuring the bank is funded and in return we fund projects that change lives in communities for sustainable development.	• Products and services that meet their financial needs. • Secure, stable and convenient transactional platforms. • Value for money on charges and interest earned/charged. • Service excellence and personalised financial solutions • Fair and transparent treatment at every interaction.	We engage our customers through different channels such as phone calls, SMS, USSD, emails and online platforms including, WhatsApp, Facebook, Twitter, LinkedIn and Instagram. We also engage through face-to-face meetings, market activations, customer webinars and customer events. We communicate product and other information through TV, radio, billboards, electronic signages, TV screens at the branches, electronic signages, YouTube, Google ads, posters and fliers. We use customer surveys and the Net Promoter Score (NPS) to obtain customer feedback.
Employees Our employees are the first point of contact with our customers. They carry the strategy of the Bank and represent our footprint at the grassroots. They execute sales and operational deliverables and are the first ambassadors in delivering our brand promise. They drive our ability to realize our purpose and create value to our stakeholders through their engagement, expertise and dedication to our business and customers.	• Career growth. • Employment stability. • Conducive working environment. • Progressive culture. • Open communication • Training, coaching and mentoring • Competitive remuneration • Empowerment	We engage our employees through in-person interaction, staff meetings, staff events, and workplace forums. We also interact online through regular email updates, social collaboration tools, anonymous feedback platforms and employee surveys.
Society/Communities Our focus is beyond business priorities and therefore we strive to make a lasting impact on the environment and the communities in which we operate. Our interaction with communities goes beyond the value provided by our products and services to transformation of lives of communities.	• Responsibility over the environment and the society. • Support for community economic, social and environmental initiatives	We engage through our social investment initiatives directly by the bank or through our social investment arm - The Family Group Foundation. Our interactions include meetings, events, workshops, training, industry forums, and sponsorships.

Stakeholder	Material interests	How we engage them
Shareholders and Investors They are the owners of our business. They provide financial capital to the bank, and expect a return on their investment. They keep staff and customers on toes to deliver on both revenue growth and shareholders' equity.	• Competitive returns on equity and other capital investments. • Sound investments to ensure sustainable growth, risk management and uptake of opportunities that arise. • Efficient allocation of capital and sustainable investments. • Sound corporate governance practices.	We engage with our shareholders and investors through in-person meetings, email communications, the Annual General Meetings, individual shareholder/investor calls and meetings. The Shares Department at the Head Office coordinates communication with shareholders and other investors through emails, calls and through our branch network. We communicate important information to shareholders through emails, annual reports and the website.
Suppliers and Partners These are critical partners to our operations. They provide services, technologies, and a wealth of other forms of technical and business support to our operations. They impact our ability to offer quality and cost-effective products and services to our customers.	• Increased business volumes. • Timely communication on outcomes of various activities including tendering processes. • Fair and transparent procurement processes. • Timely payment for supplies.	We engage suppliers through calls, emails, conference calls, and face-to-face meetings. We communicate pre-qualifications and tenders openly in the local dailies and our website.
Government and Regulators The Government provides the necessary legal and institutional frameworks for the conduct of our business. The government through the regulators ensure a conducive environment for a stable banking industry and economy.	• Ensuring that business is conducted within established legal frameworks. • Promoting opportunities for job creation and socio-economic development. • Protecting consumer interests • Ensuring regulatory compliance. • Contribution to the tax base.	We engage the government through participation in consultations and public forums and through industry associations and consultative forums. We engage the regulators through one-to-one meetings and through established channels of communication and periodic reporting.

Our Value Creation Model

Input	Business Model, Activities	Outputs

Input

Financial Capital

Total assets **Kshs 111.7 b**

Customer deposits **Kshs 81.9 b**

Total Equity **Kshs 15.6 b**

Over USD 50 m facilities for SMElending

Human Capital

1,157 engaged employees

Kshs 38.1 m spent in employee training

Manufactured Capital

93 Branches

144 ATMs

Digital Infrastructure

Leading mobile app

Social and Relationship Capital

- SME
- 750K + retail customers
- 400 K+ corporate customers
- 5600K + Agents
- Strategic partnerships
- Partnerships through The Family Group Foundation
- Social investment programs

Intellectual Capital

- Reputable and leading brand
- Innovative and new products
- Investments in data and analytics
- Mobile Banking

Natural capital

- Initiatives and partnerships on environmental conservation
- Environment management policies
- Partnerships through The Family Group Foundation

Business Model, Activities

1. Operating Context

The external environment is characterised by the global economic turbulence, the tail end effects of the covid-19 pandemic, geopolitical conflicts, inflation, heightened political activity in the run up to the 2022 general elections, adverse weather and food supply crises. The banking sector has also experienced heightened regulation. All these factors impact our business model

2. Strategy and Resource allocation

Our strategy focuses on exploiting the opportunities while minimising the risks posed by the external environment. Our resource allocation model prioritises business activities that enhance value creation and transformation of the lives of our stakeholders

3. Governance

Our governance structures and approach ensure alignment of the interests of all stakeholders and also provide oversight and support to the bank to ensuring its ability to continue creating and preserving value for its stakeholders.

4. Business activities

These are the activities and interactions with our customers and stakeholders necessary to enable the provision of our wide range of banking and insurance products and services. At the core of these activities are our customers who include individuals, small and medium-sized businesses, corporates, governments and related institutions, non-governmental organisations and social benefit institutions.

5. Risk and Opportunities

Our risk management protocols and programs ensure the risks to the business are appropriately managed to achieve the Company's business objectives. Our strategy making process involves detailed assessment of opportunities presented to the bank and how the opportunities may be exploited.

6. Performance

Our management systems ensure timely measurement and monitoring of performance against set goals, enabling the bank keep track of how and where value is created, eroded or preserved and thereby informing appropriate decisions

7. Outlook

We periodically review our value creation processes to align with the future outlook and make revisions where necessary for continued improvement.

Outputs

Our business activities process the inputs to generate outputs, which include:

- Interest and other income
- Growth in assets and liabilities
- Innovation of new products
- Satisfied customer
- Transactional services
- Payment solutions
- Foreign Exchange
- Insurance solutions
- Financial Inclusion
- Trade finance
- Investment services
- Employment services
- Community engagements
- Environmental conservation
- Innovation of new products
- Carbon emissions and other effluent and waste -direct and indirect
- Brand recognition

Outcomes	Stakeholders impacted	SDGs
Financial Capital **8.5% growth** in customer deposits to **Kshs 88.9 b** **21.6% growth** in loan book to **Kshs 81.4 b** **12% growth** in net profit to **Kshs 3.7 b** **15% growth** in total assets to **Kshs 128.5 b** **22% growth** in interest income **Kshs 13.1** **Kshs 798** million in dividends	Customers Shareholders/ Investors Suppliers Government Society Employees	8 DECENT WORK AND ECONOMIC GROWTH 17 PARTNERSHIPS FOR THE GOALS
Human Capital Growth in staff numbers to **1,330** **172 staff** trained on Leadership Retained **93%** of staff **Kshs 45.8 m** spent in employee training **Kshs 520.4M** paid in employee benefits	Employees	8 DECENT WORK AND ECONOMIC GROWTH
Manufactured Capital • Geographical footprint: Head office and branches • Digital channels: PesaPap, Internet banking & PesaPap agents • Efficient ICT infrastructure	Customers Suppliers	8 DECENT WORK AND ECONOMIC GROWTH
Social and Relationship Capital • Growth in customers • Payments to suppliers • 399 scholarships offered • 177 offered mentorship • New strategic partnerships	Customers Suppliers Society Government	4 QUALITY EDUCATION 10 REDUCED INEQUALITIES 5 GENDER EQUALITY 17 PARTNERSHIPS FOR THE GOALS
Intellectual Capital • Improved brand image and loyalty • KBA award for 2nd best in customer satisfaction • KBA award for best tier 2 bank in customer satisfaction	Customers Society Government	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Natural capital • 15,000 seedlings planted • Partnerships in environmental conservation • Lending and donations to green initiatives	Society Government	13 CLIMATE ACTION 15 LIFE ON LAND

Our Material Matters

The Group's material matters are those that could substantively affect the Group's ability to achieve its vision of transforming people's lives in Africa while remaining commercially viable and socially and environmentally relevant, thus ensuring it is able to create and preserve value for all stakeholders in the short, medium and the long term.

To ensure our ability to create value for our stakeholders, the Bank actively manages its material matters. The determination and assessment of material matters is an ongoing process that stems from our engagements with our internal and external stakeholders, and consideration of the Bank's operating environment.

The process involves identifying relevant matters based on their ability to affect value creation, evaluating the importance of the relevant matters in terms of their known or potential effect on value creation, prioritising the matters based on their relative importance and lastly, determining the information to disclose about material matters.

The following were identified as the material matters, their impact on the business and the Bank's strategic response to the matters.

Material matter	Impact, Risks, Opportunities	Our response
Competition and market pressures	Competition has continued to escalate both from banks and non-bank financial institutions. Customer expectations are continually changing requiring the bank to continually innovate on financial solutions, products and service delivery. The Bank faces the risk of loss of trust, loss of customers to competition unless it continually adapts to the competitive landscape of the entire financial services sector.	• Continually developing of new innovative and relevant products and services, and aligning existing products to the changing customer expectations. • Collection of customer feedback at all customer touch points and using the information to continually improve our products and service delivery. • Enhancing efficiency and customer convenience through the use of technology-based platforms, such as the PesaPap App
Regulatory Environment	The Bank is subject to the oversight of the Central Bank, the Capital Markets Authority and other government bodies. The regulatory environment presents risks from sanctions that may be imposed for non-compliance. It also presents opportunities to the business that comes with the reputation as a law abiding, transparent and trusted financial services provider.	• Strict adherence to the various laws governing the operations of the bank. • Policies, procedures and standards in place to ensure alignment with the law and regulations. • Deliberate engagements with the regulators and policy makers directly and through industry associations/forums.
Environmental, social and climate change matters	The environment and the society are critical components of our operations and presents both risks and opportunities to the business. Climate change and its effects has significant effects on livelihoods and across all sectors that the Bank relies on for business. Stakeholders are becoming more conscious of the impacts of business on the environment and society and demanding business takes a central role in addressing these challenges.	• Set up the ESG function • Signed up to the UN Global Compact (Kenya) chapter • Greening of Family Bank owned and managed premises • Initiatives under The Family Group Foundation. • Partnerships with various stakeholders on initiatives geared towards addressing social and environmental challenges in communities where we operate.

Material matter	Impact, Risks, Opportunities	Our response
Ethics and Integrity	The Bank is exposed to financial loss and reputation risks arising from unethical behaviour of staff, customers and parties outside our control. The unethical behaviour is manifested in fraud and financial crimes such as money laundering, terrorist financing, bribery, and corruption. The Bank is also exposed to the sophisticated cyber-crime, cyber-attacks and increased exposure data leaks. Cyberattacks can result to serious disruption of services, compromise data privacy and cause financial system instability.	• Enhancing our screening capabilities for onboarding and monitoring of our customers, • Stringent policies and structures to ensure good corporate governance and strict adherence to the rule of law. • Code of Conduct and Ethics that outlines the principles and standards of professional conduct that are expected at the Bank. • A robust ethical culture that creates awareness and understanding of the negative impacts of non-compliance and that entrenches a sense of responsibility, accountability and transparency. • Customer awareness drive through the Kenya Bankers Association – Kaa Chonjo (Be alert) campaign on card, mobile and online safety. • Robust Anti-Money Laundering system that ensures that AML risks are properly identified, evaluated and remedied • Regular communication and training of employees on the AML framework. • A whistleblowing portal that seeks to encourage our employees to speak up.
Product Development and Digital Innovation	The ability of the Bank to continue delivering value to its stakeholders depends on its ability to continually innovate on product offering and related financing, partnerships, and engagement solutions. Family Bank's progress in integrating digital transformation into banking service provision is an important strategic issue to customer experience and satisfaction, competitiveness, data security, operational effectiveness and efficiency.	• Partnership with GoK for disbursement of the Hustler Fund • Process re-engineering and customer journey mapping • Expanded payment capabilities for businesses and individuals on our digital channels • Holistic customer relationship management system (CRM) • End to end digitization of small ticket loans • Increase of the loan limits and tenure on personal and business loans • Relocation of Data Centre to a State of art Tier 4 Data Centre. • Customer self-onboarding (account opening) via mobile platform –PesaPap

Talent Managment and Diversity	At Family Bank, we believe that maintaining a diverse and fair working culture is key to encouraging diversity of thought and perspectives, which will drive innovation and enable our teams to create value for our stakeholders. We encourage the success of our workforce by providing them with equal opportunities, competitive compensation packages and a safe and talent nurturing environment. The Bank remains committed in supporting diversity and inclusion and in particular supporting female employees in the workplace. Over the years, female employees have continued to grow and progress throughout the Bank. The Bank supports people with diverse cultures, ages, abilities, thoughts and perspectives.	• Proactive engagement through a range of channels for communication, feedback, grievances, ideas and suggestions. • Safe, secure and productive environment where everyone is treated with fairly and respectively. • Implementation of Occupational Safety and Health Management System aimed at continuously improving the well-being of our employees. • Skills enhancement through internal and external training for employees based on their training and development needs.

OUR SOCIAL INVESTMENT

The Shared Value Initiatives

Family Bank set aside funding to advance the Shared Value Initiatives through the Family Group Foundation. These Shared Value Initiatives are focused on youth and women empowerment centred on the following pillars:

- **Access to quality High School Education through Scholarships for bright and needy students**

In 2022, over KES 30 million to benefit 227 students from 14 counties from form one to form four. To date, over 1000 students have been offered scholarships by the Foundation for their high school and tertiary education. The Foundation also offers mentorship and counseling services through workshops for the holistic growth of its scholarship recipients.

- **Construction in adherence using green building technologies.**

Among the sustainable investment themes accelerated by the pandemic is green building technologies, The Family Group Foundation has conducted technical and vocational skills development in construction trades e.g., plumbing, masonry, electrical, welding and carpentry for youth and thereafter facilitate the acquisition of construction starter toolkits for the trained beneficiaries for self-employment, income generation and wealth creation in the construction sector.

- **Information and Communications Technology (ICT).**

Information Communications Technology (ICT) remains a key enabler for economic growth across different sectors of our economy. The Foundation is providing capacity building, technical training and skills development in Animation, Coding and Artificial Intelligence to generate technology-based solutions for social impact. In addition, ICT start-ups will be supported through Business Incubation, Coaching and Investor Readiness for growth.

- **Agribusiness for Climate-resilient food and nutrition security.**

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

- **Water, Sanitation and Hygiene (WASH).**

Family Bank has partnered with Water.org, a global player in the water sector at the National and County Governments, to promote access to finance for safe water and adequate sanitation projects in line with Sustainable Development Goal 6.

- **Environmental conservation for climate change adaptation.**

The Bank through the Foundation, in partnership with like-minded organisations such as Green Blue Foundation, Kenya Water Towers Agency, and DAI continues to support environmental conservation for climate change adaptation in line with the Government's initiative to increase Kenya's forest cover by 10% by 2022. To date, we have planted over 15,000 seedlings within Kajiado County.

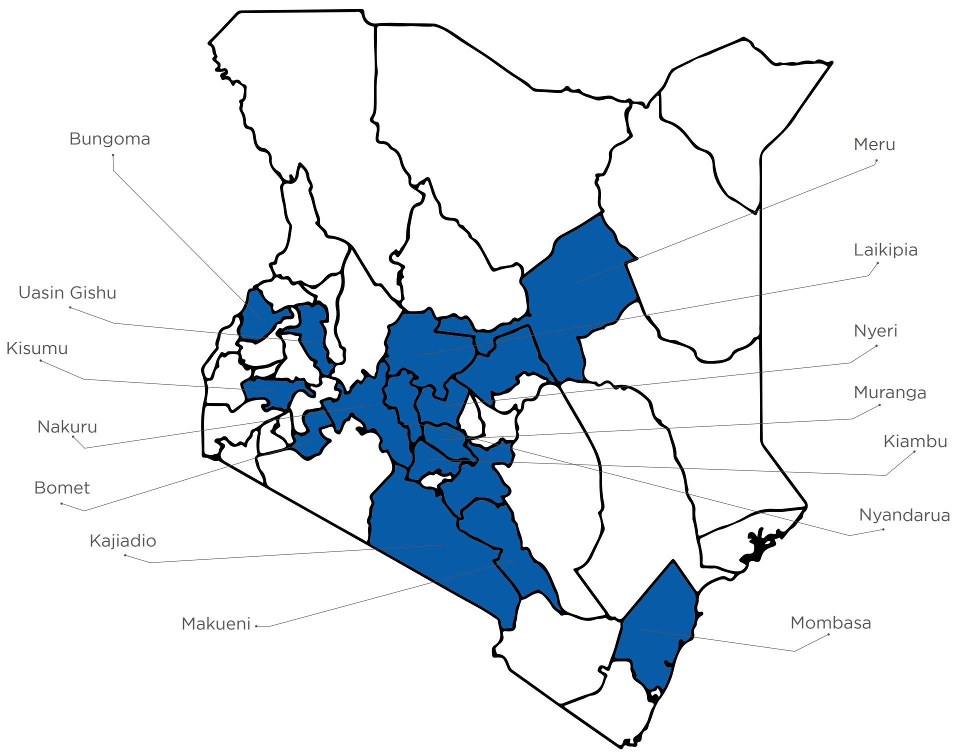
The Scholarship Program

The Bank through The Family Group Foundation, in its efforts to enhance County stakeholder relationships, continued to select the scholarship beneficiaries through the County Panels. A total of 227 beneficiaries were selected from 14 targeted counties.

Targeted Geographic focus

Through consultation the Family Bank Board and The Family Group Foundation Board added 3 counties to the original 11, bringing the total number of target counties to 14.

2021/2022 Form 1 Approved Counties Of Intake



The Formation/Strengthening of The Selection Panels

Through the Foundation all 14 Counties were visited and in collaboration with the Branch network engaged with the following key Government departments:

i. Ministry of Interior and Coordination of National Government, represented by the County Commissioner
ii. County Government, represented by the County Executive Committee Member (CEC) Education
iii. Ministry of Education, represented by the County Director of Education
iv. Department of Children Services, represented by the County Children's Coordinator
v. Kenya Primary Schools Head Teachers Association (KEPSHA) County Chairperson
vi. Kenya Secondary Schools Heads Association (KESSHA)
vii. Faith-based Leaders from Churches & Ecumenical Groups

The main purpose for visiting the Counties was to orient/reorient key representatives from the various departments. An additional slot was created for the Kenya Secondary Schools Heads Association (KESSHA) in all the 14 Counties.

The 2022 Form 1 Intake Selection Process

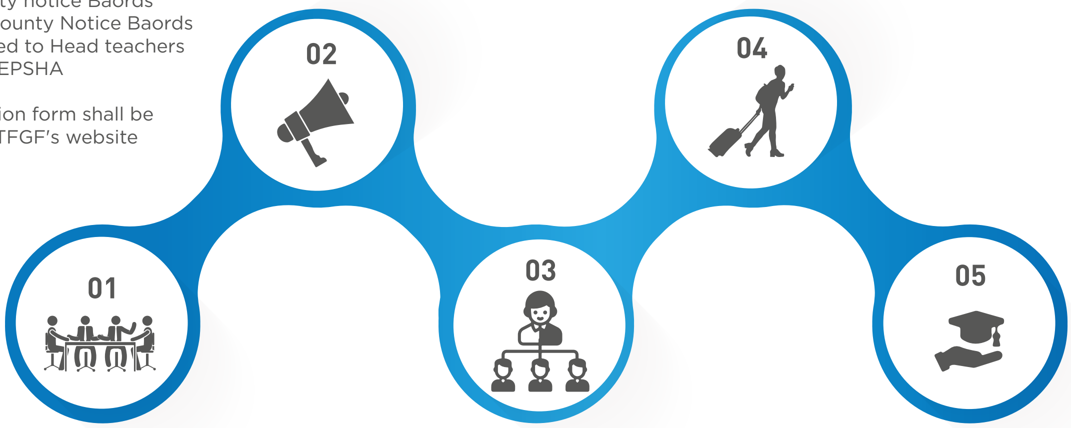
The following is a summary the 2022 Form 1 intake selection process:

02 Call for applications at the grass root level. The call shall done using the following forums;

- The Branch notice Board
- The County notice Baords
- The Sub County Notice Baords
- Fliers issued to Head teachers thorugh KEPSHA

The Application form shall be uploaded in TFGF's website

04 Successful candidates were contacted and supported to travel to Nairobi for an induction/Mentorship/Send off Process



01 TFGF team holds a planning meeting with group of companies marketing, retail and public sector heads to determine target counties.

The agreed targets are communicated to the specific selected regions through the respective Family bank's Regional Managers

03 The branch selection committee sits to review the application and short list candidates The Branch selection committee interviews the shortlisted candidates

The branch selection committee selects a representative to conduct home visits for verification

The Branch selection committee compiles the successful candidate and submits to TFGF through the Branch Managers

05 TFGF prepares payment schedules, pays school fees and ensures all the children trasition to secondary school

In 2022, we collected applications from 44 counties. A total of 9,907 applications were received, 6,506 of whom were from the 14 target counties while 3,401 were from 30 Counties outside our target region.

The Selection Panels shortlisted 45-60 candidates from each county based on the number of sub counties/ constituencies. The selection Panels subdivided themselves into 2 - 3 Sub Panels for operational efficiency. All candidates and their parents were briefed in the morning to ensure they understand the process. Each candidate was interviewed first, followed by their parents /caregivers. Panels would rank but also ensure gender balance. In the end the sub panels would congregate to agree on the final list of successful candidates.

County Selection Panels Capacity Building

The final list of successful candidates was circulated to other National & County Government Scholarship Schemes E.g. Interior & Coordination, Education; Children Services & County Government. This was to control double dipping. For Candidates who had been selected in other scholarship schemes, the panelists would quickly consult each other to ensure a suitable replacement within the specific sub county affected was done.

A joint Sendoff event was held for all the 227 beneficiaries. The event was held in Nairobi, attended by board Members from both the Foundation and the Bank.

Joint Commissioning & Send-off Event for 227 Beneficiaries

The Mentorship Program

The TFGF continued to roll out the mentorship module-based curriculum to the continuing students. The main aim of the mentorship was to:

- Increase the scholars' social and academic confidence.
- Ensure that the scholars become more empowered to make decisions.
- Develop the scholars' communication, study, and personal skills.
- Empower the scholars to develop strategies for dealing with both personal and academic issues.
- Support the scholars to identify goals and establish a sense of direction.
- Ensure the scholars gain valuable insight into the next stage of their career path.

The mentorship module-based curriculum was designed to help scholars develop the skills and knowledge they need to succeed in their studies and beyond. The modules covered a variety of topics, including: Personal development, Academic success, Career planning, Financial literacy, Health & wellness and Social responsibility.

The mentors were experienced professionals who were passionate about helping young people succeed. They provided guidance and support to the scholars, helping them to identify their strengths and weaknesses, set goals, and develop strategies for achieving their goals.

2022 Annual Regional Mentorship Workshops

Training of FBL Branch Managers

From the previous year's capacity building of the Branch Managers, the Foundation completed the remaining bit from Nairobi region. A total of 29 managers were trained. The aim of the training was to sensitize the Managers as Branch team leaders on the Scholarship Program at large, but also an in depth the modular-based curriculum orientation.

Training FBL Branch Managers on Scholarship Program

Construction

The Bank through the Foundation, in its efforts to economically empower youths, entered into a Memorandum of Understanding (MOU) with World Vision's Tumikia Mtoto Project. The purpose of the MOU is to jointly train young women in their HIV/AIDS prevention program in order to ensure their self-reliance. The project trains young women in construction.

The young women are trained in their safe spaces, where World Vision also provides HIV/AIDS education. The girls are screened for appropriateness, sensitized on the construction courses, and then given a chance to choose a specific trade. The partnership is on a 50-50 basis, with World Vision covering the cost of buying the construction toolkit and the Foundation covering the cost of training the girls.

The internship program has been very successful in providing young women with the skills and experience they need to be successful in the construction industry. The young women who have participated in the program have reported that they have gained valuable skills and experience, and that they are now more confident in their ability to find employment in the construction industry.

Post Training Pathways

After the training, the young women are either employed or self-employed. In either case, this is determined by the girl's preference and availability of opportunities. TFGF opens bank accounts for each of the beneficiaries primarily to pay the stipends but also as a way of introducing them to banking. Some of the girls are already using the accounts to make some savings. It is expected that the girls will continue to use the accounts whether they are self-employed or otherwise. The girls have been sensitized by Family Bank on how to access financing in future and hence encouraged to maintain the Bank accounts

In 2022 through this programme;

- A total of 11 Sites in Nairobi & Kiambu Counties were established in the following informal settlement areas; Pumwani, Dandora, Muchatha, Kawaida, Kariri Njama, Gatuanyaga, Kamenu, Kiuu, Mwiki, Ngoliba and Githogoro.
- 424 Adolescent Girls and Young Women enrolled.
- 282 Adolescent Girls and Young Women (18-24 years old) completed construction training.
- 75 completed internships.
- 204 received construction tool kits.
- 72 employed and 20 self-employed earning a daily income of KES 800 – 1,500.
- 450 Adolescent Girls and Young Women supported to attain membership /registration with National Construction Authority to accelerate placements for internships & employment.

Tumikia Mtoto Graduation Ceremonies

Animation, Software Engineering & Artificial Intelligence

In 2021, Family Bank and The Family Group Foundation got into a partnership with Adanian Labs where we sponsored 100 youth in animation, artificial intelligence and blockchain technology through a KES 5 million investment. In 2022, the Bank continued with this partnership and set aside KES 10 million to facilitate a four-month ICT program that equipped beneficiaries with digital skills in software development to transform their talents into employable skills. The Second Cohort beneficiaries included the Foundation's high school program alumni as well as youths selected through a partnership with the County Government of Machakos and Nyamira.

Out of the 250 learners who enrolled, at least 238 learners completed their training.

ICT Cohort 2 Launch

Agribusiness

The following key steps were undertaken to kick start the process:

- TFGF Board members attended a dinner at the Israel embassy to launch a partnership.
- TFGF entered into Partnership agreements with Israel Embassy and LATIA as a service provider in Agronomy.
- Tripartite Partnership Agreements with 4 counties (Meru, Kiambu, Nakuru and Kajiado) were developed and submitted for legal review & execution by county attorneys.
- Circular co-signed by Ambassador Israel Embassy & FBL for MASHAV Alumni for Expression of Interest.
- Embassy of Israel already sensitized the MASHAV with over 35 graduates expressing interest in enrollment.
- County Governments pledged to provide the demo farms.

The Environment Program - Restoration Of Ngong Forest

As the effects of climate change continue to mount across the country, governments, NGOs, and individuals are working together to save the planet. In 2021, The Family Group Foundation partnered with the Green Blue Foundation Africa (GBFA) and took up an initiative to restore 10 acres at Ngong Hills Forest Corner Baridi, Kiserian. We have continued to support this noble initiative and added an additional 240 acres, under an MoU with Kenya Forest Service in 2022. The Foundation donated KES 5 Million towards Ngong Hills Forest Ecosystem Restoration in partnership with: Environment & Forestry Ministry, Kenya Forest Service & GBFA "Adopt A Forest".

In 2022, we achieved the following:

- Commemorated World Environment Day Walk on June 5, 2022.
- Reduced ecosystem disturbance by fencing 4 hectares of degraded forest area.
- Controlled soil erosion through the erection of gabions, cut-off drains, and stabilization of galleys in degraded forest areas.
- Rehabilitated degraded water pans through drenching and excavation works for water harvesting.
- Planted 15,000 seedlings.

The initiative is also aligned to the President's declaration of "Adopt A Forest" for Ecosystem restoration by HE President Dr. Ruto on December 21, 2022 – National Tree Growing Campaign. The following were achieved:

- The site was declared by the Cabinet Secretary – Environment & Forestry – as a "model site for Ecosystem Restoration in Kenya".
- Community mobilization, blessing and endorsement by Maasai elders was done.
- Strategic Partnerships with GOK Agencies, Conservation organizations, private sector and civil society were established.
- Over 100 youths from the local community were employed.
- 3 water pans were rehabilitated.
- Biological Control of moles using pig/swine manure was done.
- A robust ICT System for Climate Financing using the per square meter model was developed.
- County Government Environmental Marshal Plans were implemented.

Tree Planting with staff in Ngong Forest

Products, Services and Partnerships overview

- **Sponsorship of the Inaugural Annual Association of Pension Trustees and Administrators of Kenya (APTAK) Conference** – We sponsored the inaugural APTAK International Conference that brought together a consortium of pension administrators and trustees in Kenya to provide a multi-stakeholder platform for deliberations and discussions on prudent trusteeship and administration on innovation, collaboration and good governance. This was held in February 2022.

- **KBA Customer Satisfaction Survey** – In 2022, Family Bank was voted as the overall second-best bank and best tier-two bank in customer responsiveness and digital banking experience in 2022 Survey. This is the third year running that our customers have voted us as the best tier-two bank.

- **Partnership with the Presbyterian Church of East Africa (PCEA)** – Family Bank signed a memorandum of understanding with the Presbyterian Church of East Africa to offer tailor-made and relevant investments, financing, collection and payments solutions to the church during a 3-day PCEA Presbytery Leaders Conference in Mombasa.

- **Westlands Quickmart Branch Opening** – We were honoured to have our Chairman Dr Wilfred Kiboro as the Chief Guest for our customer, Quickmart's 46th branch opening in Westlands.

- **Sponsorship of Kenya Association of Private Hospitals Convention** – Family Bank was among the speakers and exhibitors of the annual Kenya Association of Private Hospitals (KAPH) convention, held in February 2022, that brought together stakeholders in healthcare. Family Bank had the opportunity to network and present our value proposition to private and public health practitioners and solutions to the medical fraternity.

- **5th African Tea Convention and Exhibition** – Family Bank participated in the 5th Africa Tea Convention held in July 2022 in Bujumbura, Burundi hosted by the East African Trade Association in collaboration with the Burundi Tea Authority to discuss disruptive financing and financial inclusion and investments in the agri-business sector.

- **Inaugural Climate Action Conference and Exposition**– We participated in the inaugural climate action conference in Uasin Gishu organised by the Eldoret Water and Sanitation Company (ELDOWAS) in April 2022. The conference sought to champion for stronger relationships and collaborations in climate action at the sub-national level.

- **Aceli Africa Award** – Family Bank was feted as the bank of the year for high-impact agricultural SME lending by Aceli Africa in November 2022 during the Aceli Africa Convention that brought together stakeholders from East Africa, Southern Africa, the United States, Europe and Mexico including lenders, donors, SMEs, Developmental Financial Institutions (DFIs), social impact lenders, and consultants among others.

- **Appointment as a Settlement Bank** – In August 2022, Family Bank was appointed as a settlement bank by the Central Depository and Settlement Corporation (CDSC) allowing customers to enjoy access to a wider range of financial services such as access clearing and settlement for equities and corporate bonds, depository services for securities accounts, transfer services, among other clearing, settlement and depository services for securities that are listed in the Nairobi Stock Exchange.

- **Regional Customer Dinners** – We have been deliberate in our interactions and engagements with customers in various regions. We held customer dinners in Embu, Ukunda and Kirinyaga.

- **Aviation Community Golf** – In November 2022, Family Bank sponsored the Aviation Community Golf hosted by the Kenya Airports Authority at Muthaiga Golf Club aimed at bringing together stakeholders in the aviation sector to network and celebrate the industry's resilient efforts in fighting COVID-19 aftereffects.

- **Drought Response** - H.E. President William Ruto late last year formed a National Steering Committee on Drought Response in which Family Bank and several other corporate entities are represented to help mitigate the short-term effects of drought and also champion for long-term measures to mitigate climate change effects and boost food production.

- **Global Credit Rating GCR** assigned Family Bank Limited Kenyan national scale issuer ratings of BBB+(KE) / A2(KE), in the long and short term respectively: Stable Outlook

- **Sponsorship of Annual Scientific Conference** – The Bank had an opportunity to participate in deliberations by the Pharmaceutical Society of Kenya for its 42nd Annual Scientific Conference while offering our value proposition to the pharmacists. This was held in June 2022.

- **Anglican Church of Kenya Conference** – The Bank has been proactive in engaging the church sector through our customised product for the churches. In April 2022, Family Bank made a presentation to the clergy on our value addition to the church during the Anglican Church of Kenya Bishops and Senior Clergy Conference at the All-Africa Conference of Churches.
- **Customer Investor Briefing and Breakfast Events** – In a bid to connect with our customers, interact with them and get feedback on our services, we held two customer events; for corporate clients and for our SME clientele that saw us interact with over 600 customers as we expound our offerings in the banking ecosystem.
- **Africa Guarantee Fund Partnership** – Financing of KES 1.5 billion loan portfolios to fund Small and Medium-sized Enterprises, women-led businesses and climate-friendly investments and provide technical training to the SMEs.
- **Media Training for Senior and Middle-level Managers** – We conducted a training in September 2022 to equip our senior and middle-level managers on how to handle media, media interviews and how to respond to crises.

- **Law Society of Kenya Conference** – We sponsored and participated in the annual Law Society of Kenya Conference in July 2022 which brought together the in-house and external counsels. This was relevant to the bank since we have a professional product package dubbed the “Advocates Bouquet”.

- **Aqua for All Financing Deal** – Family Bank signed a KES 350 million (€2.9 million) two-year partnership with Aqua for All, a foundation that specializes in innovative finance for water and sanitation, to facilitate increased lending to medium and small-scale water enterprises supplying low-income communities with safe drinking water either through piping systems or water kiosks throughout Kenya.

- **Thika Institute of Business Studies (TIBS) Annex Campus Opening** – The CEO officiated the opening of the TIBS Annex Campus, one of our corporate clients, at the 7th graduation ceremony held in June 2022 at TIBS.

- **Fundraising Partners** – To support our growth strategy, we signed various fundraising memorandums to extend credit to various segments of our clients. We continue to mainatin our partnerships:
    - **Blue Orchard** – Financing of USD 17 million to support onward lending to Small and Medium-Sized Enterprises (SMEs) and to promote access to education for primary, secondary, higher and vocational education levels through customized financial services.
    - **ResponsAbility Investments AG through Social Bond Financing for Healthier Lives** – To finance USD 10.75 million to support lending to retail and SMEs in rural and lower-income urban areas within the health sector.
    - **Finance in Motion through Eco. Business Fund** – Financing of USD 10 million to support sustainability and business continuity of SMEs in agriculture, forestry, fishery and tourism sectors.
    - **Incofin Investment Management through Microfinance Enhancement Facility** – Financing of USD 7 million to expand the SME loan portfolio and support the sector with affordable credit.

- **World Navi Partnership** – Through an asset financing partnership deal signed with World Navi in July 2022, the Bank offers 80% financing for second-hand vehicles to ease direct importation from Japan, Thailand, Singapore and South Africa.

OUR Sustainability Initiatives

Family Bank plays a critical role in advancing sustainability through financing sustainable projects and offering products and solutions that address the social and environmental challenges the world faces today – among them climate change. The Bank's influence enables it to drive behaviour change among customers and other stakeholders. By incorporating environmental, social, and governance (ESG) criteria into its financing decisions, Family Bank ensures that its activities contribute to the transition to a more sustainable future.

Financial Inclusion

Financial inclusion remains a critical pillar for sustainability in our vision of transforming people's lives. Family Bank continues to bring into the banking net thousands of previously unbanked customers and providing access to credit to the thousands of underserved individuals, small and medium enterprises.

Bringing previously unbanked customers into the banking system and providing access to credit, insurance, and payment systems for underserved individuals and small businesses promotes economic development, reduces poverty, and fosters social and environmental progress. It enhances resilience to shocks, promotes gender equality, and advances social inclusion.

To ensure that we succeed in advancing financial inclusion, we are continuously innovating in inclusive and digitally anchored products and services that offer convenience, security and affordability and cost efficiency. We have developed a robust Digital Financial Services system that is built on a 5-point value system:

Customer centred design

Embedding the bank in the customer journey, remaining at the forefront of digital banking by offering our customers cutting-edge solutions.

Ecosystem approach

Embedding great user experiences based on ecosystem plays to make the banking component invisible, by realizing that banking needs to be something people do and not a place they need to be.

Transforming the entire organization

We have embedded a digital first and innovative culture within the organization right from the back office to the front customer facing teams.

Coopetition

As opposed to competing with other industry players, we have been able to offer white labelled services that run on our technology platforms to other industry players including Saccos which has accelerated digital uptake as well as financial inclusion.

Customer affirmation

We believe our customers are at the heart of everything we do. Their satisfaction and convenience are our top priorities. Their affirmation is evidenced by the accolades received by the bank for two years in a row as the best Tier 2 bank in digital experience.

Digital Financial Services includes:

PesaPap Mobi loans - Automated straight-through processing of low-ticket loans including salary advances through our mobile channels as well as our ATMs. This has allowed most of our turnover based customers to borrow for extremely short periods of time to manage stock-outs thereby ensuring business continuity on their end.

LipaNaFamily - A micro, small and medium-sized enterprise collection solution that offers instant credits to customers' accounts at no extra charge as well as a reconciliation tool for everyday book keeping. Customers have been able to increase their sales because of the ability to accept multiple payment options including mobile money.

Cardless Withdrawals – Bringing financial services closer to each person through adaptation, proximity and multi-channel integration. We also allow interested parties to register as agents thereby creating employment and new revenue streams for our customers

FamilyPay – This is a bulk payment solution that enables businesses pay casual workers instantly through their preferred cash out option - bank account or mobile money.

Pre-paid Student Cards – As a way to ensure the younger generation is effectively inducted and trained on personal financial management, we have launched pre-paid cards for students for better management of pocket money. The card allows parents and guardians to conveniently top up their children's pocket money and school fees.

Distribution Channels - Mobile Banking (PesaPap)

The Bank is driving innovation via its mobile banking app

PesaPap

Account Opening on mobile

Card Management

Card Withdrawals

Access to Loans & Business Float

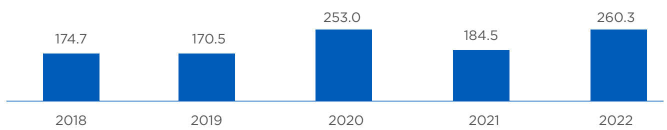
Money Transfer & Bill Payment

Savings Products for Wealth Creation

No. of App Downloads **> 1M** Total number of Pesapap downloads	**No. of Active Users** **~ 260k** 90- day active users on PesaPap as at Dec 2022	**New Customer Acquisition** **+ 6k** No. of non-Family Bank customers acquired
Value of Transactions **+KES 550B** Total value of transactions processed in 2022	**Size of Mobie Loan Book** **~KES 5B** Total value of mobile loans disbursed in 2022	**Size of Savings / Deposits** **~KES 176M** Total mobile savings and deposits as at Dec 2022

No. of Active Users ('000)[1]

Over 80K increase in active users over the last 5 years



Distribution Channels as at 2022

Independent Agents
~ 5,600K

These are Individuals who sell the bank's products. They may be exclusiveto the bank

ATM
~ 144

These are all the physical electronic outlets that allow the customers of the bank comple-card transaction

Digital Platforms
3

These include the mobile banking app, internet banking and USSD codes the bank offers its services through (i.e DigiCash)

~ 30%
of transaction values are via digital channels

~ KES 0.5B
Value of transactions on mobile app

~ 260k
Number of active users on the mobile app

The implementation of Digital Financial Services has made a significant impact on reducing traffic in banking halls by shifting low-value loan transactions to mobile platforms. Nearly 80% of loan requests processed at branches fall below the value of 300,000. Traditionally, such branch-based loans would be processed within an average of 3-4 days. With the utilization of technology and data, we are now able to offer these loans within minutes.

Through the revamping of our mobile banking platform, we have streamlined the transaction process, reducing the number of steps required for completion. As a result, the proportion of transactions conducted at branches has decreased from 31% in 2019 to 9% in 2022. Our target is to further decrease this percentage to 5% or even lower. By embracing these digital solutions, customers can now perform routine tasks efficiently and swiftly without the need to physically visit a branch.

These initiatives reflect our commitment to reducing our carbon footprint and supporting the Sustainable Development Goals (SDGs). By promoting digital financial services, we strive to contribute to a more sustainable future by minimizing the environmental impact associated with traditional banking practices.

Agricultural Sector

The agricultural sector contributes significantly to the economy and people's livelihoods. It is the primary source of food, employment, and contributes to the country's GDP. Family Bank has a number of initiatives aimed at supporting the agricultural sector. The initiatives centred around sustainable agriculture will go a long way in ensuring food security, environmental conservation, and poverty reduction.

In partnership with **Perfometer** the Bank targets smallholder dairy farmers with the objective of availing quality and affordable feeds for improved milk production. Financing is offered mainly through dairy cooperatives and also standalone farmers. Over Kes 100m has been disbursed on this program impacting over 2,000 farmers over the last one year.

The bank also runs an incentive program in partnership with **Aceli Africa** where the latter provides monetary incentives and first loss guarantee to the Bank to enable it increase its appetite for the agricultural sector. This program has seen the bank's portfolio in the agricultural sector grow from Kes 2 billion in 2021 to Kes 4.2 B in 2022 and impacting over 5,000 farmers.

The arid and semi-arid areas (ASAL) of the country have continued to suffer the effects of climate change. In partnership with **Palladium** partnership, the Bank runs an incentive program targeting farmers in dairy, horticulture, livestock as well as green energy projects in the arid and semi-arid counties. The program has helped reach over 1,000 farmers over the last year.

Water and Sanitation

Water and sanitation are significant challenges among households in Kenya, with approximately 41% lacking access to clean water sources and 59% lacking access to improved sanitation facilities. This has severe implications for health, and overall well-being. It disproportionately affects marginalized communities, exacerbating poverty and hindering socio-economic development.

Family Bank has supported a number of water and sanitation initiatives and partnerships. Since 2017, the Bank has continually provided financing to Mathira Water and Sanitation Co. Ltd for the rehabilitation of old water connections in Karatina town. Much more recently, the Bank financed connections of new consumers and rehabilitation of the Pipeline to increase household connections to clean water. The project is estimated to have impacted 4,500 families.

The Naivasha Ushirika Community Water Project Group has also benefitted immensely from the partnership with Family Bank. The Bank facilitated the purchase and installation of solar power for their boreholes and storage facilities with a capacity of 100,000 litres. The solar installations, have enabled the project reduce their electricity expenditure by 80% and increase round the clock access to water, impacting an estimated 2,500 lives.

The Bank has also partnered with **Aqua for All** and **Water.org** to provide guarantees to community-based water projects. The partnerships have also facilitated technical assistance, capacity building, customer engagement, monitoring and marketing of Water, Sanitation and Hygiene (WASH) to accelerate uptake.

Customer Case Studies

Our Customers play a pivotal role as partners in our value creation process. Customers are able to generate value for themselves through the diverse range of products and services we offer while simultaneously acting as catalysts through which the Bank creates value for the society and the environment. Here are case studies of how the Bank actively generates and preserves value in collaboration with our customers.

Resilience Rewarded:

Helen Onyony's Journey to Business Continuity with Family Bank

Helen Onyony, a director of Healeage General Enterprises Limited, understands first-hand the pain of losing a long-term financial partner. Just as her supplies business reached its peak, her bank was placed under statutory management. This unfortunate event not only prevented her from accessing the savings she had diligently accumulated over the years but also deprived her of crucial trade finance support and other facilities that the bank had offered to assist her business. It felt as though she had been brought back to square one.

Apart from Healeage General Enterprises, Helen also manages Healeage Insurance Agency and Costa Café in Westlands. Since its establishment in 2013, Healeage General Enterprises has thrived as a supply and procurement company. They have become a trusted supplier to numerous county governments, private and public entities.

Following the closure of her previous bank, Helen urgently needed to secure a new banking partner who could ensure the sustainability of her supplies business. However, her efforts to find the right partner proved to be unfruitful. Very few banks were willing to support her unique business requirements, such as LPO financing, Letters of Credit (LCs) and direct payments to suppliers. Additionally, there was a scarcity of banks interested in supporting small and medium enterprises. Despite these challenges, Healeage persevered in their search until a friend introduced Helen to Family Bank.

Family Bank demonstrated exceptional receptiveness to Helen's predicament. After the customary appraisal processes, Helen was able to access the trade financing facilities she needed to continue her supplies business.

She was particularly impressed with the swift processing of their initial facility, by Family Bank, which involved a direct payment to a linen manufacturer for Kenyatta National Hospital (KNH). This marked a remarkable improvement compared to their previous banking experiences. As a result, Helen began exploring other facilities offered by Family Bank, such as LCs, which she found even more impressive. These streamlined processes enabled Healeage to deliver their consignments faster than ever before.

Kenyatta National Hospital holds a special place in Helen's heart due to the significant impact her supplies have had on the institution. She has provided bed linens, blankets, and uniforms to KNH, recalling vividly the time when the hospital faced public scrutiny due to a shortage of these essential items. Patients were required to share linens or bring their own from home, primarily due to delayed delivery of supplies. However, thanks to the partnerships she has established with suppliers, with the support of her banking partner, notably Family Bank, the days of delayed supplies are now a thing of the past!

Helen specifically commends Family Bank's "Trade Package", known as Trade Finance, for its instrumental role in facilitating Healeage Enterprises' operations across their various businesses. Helen considers Family Bank a "talking bank" due to their availability for inquiries at any time. They have cultivated an excellent relationship with the Bank's staff across all departments, who have been incredibly helpful and willing to go above and beyond to assist whenever called upon.

Empowering Success:

Wawera Nyaga's Journey of Entrepreneurial Triumph with Family Bank

Wawira Nyaga, a businesswoman from Ngong, Kajiado County, has successfully established a diverse range of businesses, with a primary focus on real estate and selling second-hand clothes. Her entrepreneurial journey commenced during her younger years as a hawker engaging in barter trade to exchange products with others. Guided by her mother, she began visiting Gikomba to procure second-hand clothes, which she then sold to friends and family. In 1999, Wawira made a pivotal decision to fully commit herself to the second-hand clothes business and utilized her savings to open a shop at Toi Market, an open-air market located on Ngong Road in Nairobi County. Within a few months, her operations expanded, and she hired an assistant to support her growing enterprise.

Initially hesitant about loans, Wawira's perspective transformed when a friend showcased the possibilities that could be achieved through financial assistance. In 2001, she started banking with Family Bank and soon obtained her first loan. This enabled her to expand her inventory, resulting in accelerated business growth. Wawira greatly appreciated the flexibility in repayment periods offered by Family Bank, making their loan an ideal fit for her needs. With the Bank's support, her business experienced tremendous growth, leading to the employment of nine individuals. As time passed, Wawira's involvement in the second-hand clothes business flourished, inspiring her to explore opportunities in other sectors such as real estate.

While Wawira has engaged with various banking partners in the past, she emphasizes that Family Bank stands out due to its exceptional support and customer experience. From the managers to the agents, Wawira firmly believes that Family Bank has given her unwavering support and sound financial advice throughout her challenging journey. The Bank has provided loans with competitive interest rates, offered real-time business advice and played a pivotal role in her remarkable success. Wawira firmly believes that without the help of Family Bank, she would not have accomplished such significant milestones or even dared to take bold steps as she has in her investments. Other than growing her business, Wawira is passionate about impacting the youth and she offers free mentorship and counselling services to many young individuals who many regard her as a maternal figure in their lives.

Wawira wholeheartedly recommends Family Bank as the preferred banking partner for any business, especially small and medium-sized businesses primarily due to their unwavering commitment to prioritizing customer service. She commends the Bank for its easy and convenient banking services and assures other enterprenuers that Family Bank will walk with them throughout every step of their business journey. Wawira maintains unwavering faith in the support provided by Family Bank which has been instrumental in her accomplishments.

Green City Incinerators and Family Bank:

Pioneering Sustainable Hazardous Waste Management in Kenya

Mr. Michael Riri, a seasoned professional in hazardous waste management and incineration, identified a significant gap in the country's infrastructure. A pressing concern was the lack of facilities capable of handling large volumes of hazardous waste management, including hospital waste, expired chemicals, drugs, and agrichemicals. In order to address this need and prevent environmental contamination and health risks to humans and plants, Michael and his partner Mr. Mbugua Ndichu embarked on a mission.

In 2010 an opportunity arose when an incineration facility in Embakasi, Nairobi became available for sale. Together with his co-director at Green City Incinerators Limited, Michael tirelessly pursued financing from various banks to acquire the facility. Despite facing challenges related to the required capital and collateral constraints, they persevered in pursuit of their dream.

Just as the duo was on the brink of giving up, they approached Mr. Maigua, the Branch Manager at Family Bank's Kenyatta Avenue branch at the time. To his surprise, Family Bank displayed genuine interest in their vision and demonstrated a willingness to further engage. After presenting its business strategy and financial analysis, the Bank recognized the viability of the venture. Leveraging its reputation for supporting small and medium enterprises, Family Bank financed the entire purchase price, with Green City Incinerators obligated to repay the facility within 36 months.

Through their diligent efforts, Green City Incinerators successfully repaid the loan in just 15 months, marking the beginning of a fruitful relationship with Family Bank. As the demand for incineration services continued to grow, the existing incinerator in Embakasi proved inadequate, with a capacity of handling only 4 tonnes per day—a mere fraction of the total demand. Furthermore, regulatory bodies such as the National Environmental Management Authority (NEMA) and the Pharmacy and Poisons Board (PPB) emphasized the importance of proper disposal of hazardous waste, further fuelling the demand.

To seize the emerging opportunities, Michael and Mbugua embarked on extensive travels to find the right-sized incineration technology capable of meeting the country's demand and the ever-growing demand beyond Kenya's borders. Green City Incinerators successfully conceptualized and designed a state-of-the-art facility with an incineration capacity exceeding 500 tonnes per day. However, they had concerns about securing the necessary funding for such a substantial project. Once again, Family Bank demonstrated its commitment by providing multiple facilities to finance the construction of the facility in Athi River in Machakos County

Once completed in the next two months and in full operation, the new facility will have the capacity to surpass the country's daily waste generation. This development will address the long-standing challenge of the disposal of tonnes of hazardous waste that have accumulated over the years due to the lack of appropriate facilities. Additionally, it is estimated that port facilities currently hold 500 metric tonnes of imported goods that require destruction or return to their country of origin due to being declared unfit. This one-of-a-kind facility in sub-Saharan Africa will also assist neighbouring countries in alleviating the hazardous waste disposal predicament in the region.

The partnership between Family Bank and Green City Incinerators Limited exemplifies Family Bank's commitment to supporting initiatives that address climate change mitigation and adaptation. Open flame incineration, which is prevalent due to the unavailability of controlled incineration facilities, emits greenhouse gases such as carbon dioxide, methane, nitrogen oxides, and sulphur oxides that contribute significantly to global warming. It also generates particulate matter consisting of fine particles, aerosols, ash, soot, and other combustion by-products that further degrade air quality.

In contrast, this controlled incineration facility employs various strategies and technologies to reduce greenhouse gas emissions compared to open flame incineration. These include efficient combustion, minimizing the release of unburned carbon compounds and reducing carbon dioxide (CO2) emissions. The facility also utilizes advanced air pollution control technologies like scrubbers, filters, and electrostatic precipitators. These systems help capture and remove pollutants.

Besides making a positive environmental impact through waste and emissions reductions, Green City Incinerators is in the process of establishing a solar power plant with a capacity exceeding 200 kVA. The entire project will be financed by Family Bank. Once the incineration facility becomes fully operational, it will directly create job opportunities for 100 individuals in various capacities. This initiative will greatly influence the social and economic well-being of the communities in Athi River and beyond.

When asked about his relationship with Family Bank, Michael speaks highly of the Bank's personalized attention and regular communication, which he has not experienced with other banks. He expresses his strong affinity for Family Bank, considering it his rightful place, and he has no intention of seeking support elsewhere. Michael firmly believes that he will continue to receive the same level of support that he has enjoyed thus far, as well as for potential projects in the future.

OUR CONTROL ENVIRONMENT

OUR CONTROL ENVIRONMENT

Risk Management Overview

Family Bank is exposed to a number of internal and external risks that can affect the execution and realization of its strategy and the creation of value to its stakeholders. As a financial services provider, effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Bank.

Risk management is a central part of the Bank's strategic management. It is the process whereby risks related to all activities are methodically addressed with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. Risk Management at Family Bank provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for managers to make informed management decisions.

The focus of good risk management is the identification, assessment and management of risks. It marshals the understanding of the potential upside and downside of all those factors which can affect the Bank. It is intended to increase the probability of success, and reduce both the probability of failure and the uncertainty of achieving the Bank's overall objectives.

Risk management is a continuous and developing process which runs throughout the Bank's implementation of its strategy. It addresses methodically all the risks surrounding the Bank's activities past, present and, in particular, the future.

Risk management is at all times required to be integrated into the culture of the Bank with an effective policy and a program led by the senior management. It translates the strategy into tactical and operational objectives, assigning responsibility throughout the Bank with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

Our approach to Risk Management

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

Our risk management program is embedded in the Company's culture, which encourages ownership and responsibility for risk management at all levels. A key premise is that all employees have an important role to play in managing the Company's risks. risks and sets out associated responsibilities and expectations Assurance is The Risk Management Framework identifies 11 principal guaranteed through self-assessment by respective departments, risk management and compliance reviews by the risk department, as well as internal and external audits.

Risk Appetite

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

Risk Governance

At the apex of Risk Governance is the Board of Directors. We have various committees within the Board that are tasked with specific areas of governance. These committees include:

- Board Audit Committee
- Board Risk and Compliance Committee
- Board Credit Committee
- Board Projects Committee
- Board Human Resources Committee
- Board Nominations Committee

Risk Management Framework

Our Risk Management Framework sets out lines of responsibility and authority for risk-taking, governance and control. The Board of Directors is ultimately responsible for ensuring the oversight of all risks across the enterprise and has the primary responsibility for taking action to ensure risk management policies, programs and practices are in place. The Board delegates certain responsibilities to respective Board Committees.

The Risk Management Framework:

- Provides a process for identifying, assessing and managing potential risks faced by the Bank.
- Emphasises the need for segregation of duties by defining the Three Lines of Defence,
- Defines the roles and responsibilities in the risk management process.
- Defines the levels of risk the Bank is willing to undertake in pursuance of its strategic objectives,

around risk management standards. The risks and the associated mitigation measures are detailed below:

Risk	Definition	Mitigation
Credit Risk	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	• Lending limits set for branch management, management credit committee, board credit committee. • Well laid out lending policy and documented procedures. • Well documented Credit Concentration Risk Policy. • Regular training • Regular reports on credit risk to management and board credit committee, board risk committee • Oversight by internal audit and risk department. • Credit risk appetite with clear key credit risk indicators. • Board oversight through quarterly Board Audit and Risk Committees • Monthly Management and Audit Risk Committee meetings • Credit risk appetite set and monitored on a monthly basis
Market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks 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.	• Market risk policies • Monthly Assets and Liabilities (ALCO) Committee meetings to discuss market risks and take action. • Monitoring by market risk desk. • Well-resourced treasury department. • Board oversight through quarterly Board Audit and Risk Committees • Market risk appetite set and monitored on a monthly basis
Liquidity Risk	The risk of the Bank failing to meet short term obligations as and when they fall due. This includes paying customers back their deposits as and when they wish to withdraw them.	• Liquidity risk limit set at 30% above the regulatory limit of 20% • Policies set to guide treasury operations, assets and liabilities · Assets and Liabilities Committee (ALCO) that meets on a monthly basis· • Daily monitoring of liquidity risk • Liquidity risk appetite set and monitored. • Monitoring of Assets and Liabilities management by market risk and middle office. • Board oversight through quarterly Board Audit, Risk & Compliance Committees· • Liquidity risk appetite set and monitored on a monthly basis

Risk	Definition	Mitigation
Operational Risk	The current or potential loss of capital or earnings arising from inadequate or failed internal processes, systems, people, and external events, including legal risks but excluding reputational, compliance, and strategic risks.	• Policies set to manage specific risks such as Operational Risk policy, Human Resources Policy and Code of Conduct. • Zero tolerance to fraud · • Use of Risk Control Self Assessments by departments to self assess on significant risks. • Monitoring of risk appetite limits · • Daily review by operational risk indicators · • Staff screening during recruitment. • Daily monitoring by operation risk · • Assurance by internal audit · • Board oversight through quarterly Board Audit and Risk Committees· • Monthly Management and Audit Risk Committee meetings· • Operation risk appetite set and monitored on a monthly basis.
Information Technology Risk	The risk of failure of IT systems to support the Bank's strategy and operations. Includes system failures, cyber security risks and risks of data loss.	• Well documented IT policy • Well-resourced IT department • Daily monitoring of IT risks • Monthly IT Steering Committee meetings • Internal Audits on IT • External Audits on IT • Board oversight through quarterly Board Audit and Risk Committees • Monthly Management and Audit Risk Committee meetings • IT risk appetite set and monitored on a monthly basis
Reputation Risk	The current or potential loss to earnings and/or capital arising from damage or deterioration of the Bank's reputation or standing due to a negative perception of the Bank's image or its business practices amongst customers, counterparties, shareholders, regulatory authorities and other stakeholders, whether true or not.	• Marketing department that monitors reputation risk on a daily basis • Public Relations and Communications Policy • Oversight by Risk department • Reputation risk appetite set and monitored on a monthly basis • Board oversight through quarterly Board Audit and Risk Committees • Monthly Management and Audit, Risk & Compliance Committee meetings

Strategic Risk	The risk of the Bank's inability to meet its long-term objectives as set in its strategic plan	• Board oversight on strategy through the Board Strategy Committee · • Quarterly board strategy meetings on strategic implementation · • Strategic risk appetite set and monitored on a monthly basis. • Monthly monitoring of the strategic implementation by senior management • Monitoring of strategic risk by risk department · • Board oversight through quarterly Board Audit, Risk & Compliance Committee meetings
Compliance and Regulatory Risk	The current or potential loss to earnings and/or capital arising from non-compliance to, or the violation of Central Bank Prudential Guidelines laws including Banking Act, relevant regulations, rules, ethics, amongst other standards of practice	• A well-resourced compliance department that enforces implementation of various regulations including AML· • Regular internal audit reviews· • Compliance risk appetite set and monitored on a monthly basis· • Driving a culture of compliance and ethical conduct in the bank· • Maintaining a risk-based approach to the management of the bank's compliance risks in accordance with the bank's risk appetite· • Daily monitoring by Compliance function to detect, mitigate and prevent breaches of laws and regulations. • Board oversight through quarterly Board Audit, Risk & Compliance Committee meetings
Country Transfer Risk	The risk that economic, social, and political conditions and events in a foreign country will adversely affect an institution's financial condition. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events that contribute to institutions' operational risks. Transfer risk is the risk that a borrower may not be able to secure foreign exchange to service its external obligations. Where a country suffers economic, political or social problems, leading to drainage in its foreign currency reserves, the borrowers in that country may not be able to convert their funds from local currency into foreign currency to repay their external obligations.	The Bank is not exposed to this risk for now since we do not have any subsidiaries out of the country. We have also not been engaged in business activities with customers out of the country. • Controls to be out in place in case Bank opens subsidiaries out of the country. • Country and Transfer risk policies approved by Board. • Set clear lines of authority (including approval of cross-border lending and exceptions), responsibility and accountability for country risk management • Capital adequacy buffers to cater for foreign investment and country risk • Daily monitoring by risk department · Assurance by internal audit • Set country and transfer risk appetite. • Oversight by Main Board, Audit, Risk & Compliance Committees.

ESG and Climate Risks:	Risks leading to environmental degradation or that erodes ecology, destruction of forests and natural resources and causes adverse effects of climate change such as drought. Includes how the Bank manages its staff and other stakeholders in the society. The risks that may arise from the failure of the Bank to implement responsible operational and lending practices.	• ESG Policy and ESMS developed and approved by the Board. • Training of Board and staff on ESG Risks and their mitigation· • Exclusion list set to guide on sectors Bank will not invest in • ESG unit set up within risk department to coordinate ESG initiatives in the Bank • Board oversight through the Board Audit, Risk & Compliance Committee
Data Protection and Privacy Risk	The risk that arises from the handling of data in possession of the Bank relating to its customers, staff, suppliers and other stakeholders. The risk has been heightened following the enactment of the Data Protection Act in 2019 and related General Regulations of 2021. The Act requires the Bank to process personal information within prescribed principles and to have legal justifications for collection and processing of this information.	• The Bank has registered with the Data Protection Commissioner as per the Act. • A Data Protection Officer has already been hired • The Data Protection Policy has been developed • Staff trainings at all levels have been done to sensitize staff on this risk· • The bank conducted a Gap Assessment in relation to its processing activities and progress is being made to close the gaps

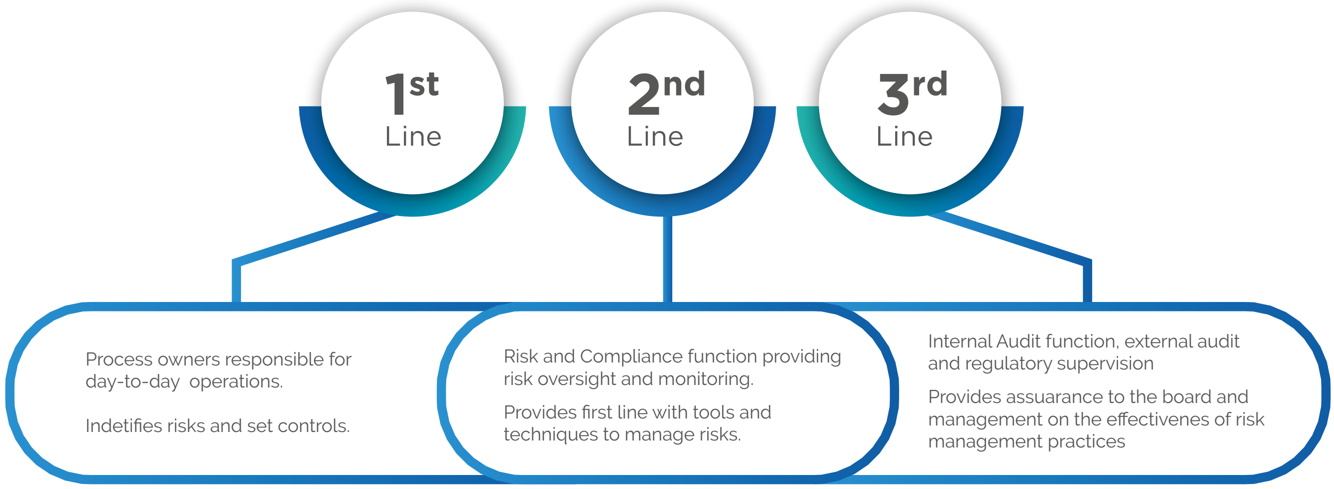
Three Lines of Defence

The roles of implementing the Risk Management Framework are guided by the model of the three lines of defence.

The first line of defence consists of the day-to-day management and operation of the business. They are responsible for ensuring that a risk and control environment is established as part of the day-to-day operations. They identify the risks, set the controls and where necessary escalate risk events to the second line of defence.

The second line of defence consists of those functions that provide risk oversight and monitoring and challenge the first line of defence. It also provides the first line of defence with the necessary tools and techniques to manage risk and establish internal controls in an effective manner.

The third line of defence is the independent assurance, provided through the Internal Audit function, external auditors and regulatory supervision. This includes evaluating whether the financial statements of the bank comply with the relevant statutory and regulatory requirements, and assessing the extent to which risk management and governance practices are effective and that systems of control are functioning as intended.



Corporate Governance Statement

The Board of Directors is responsible for the governance of the Company and is committed to high standards of corporate governance and business ethics. Good corporate governance practices are essential to the Company's long term success, creating and preserving value, building trust and engagement between the Company and its stakeholders.

1. STATEMENT OF COMPLIANCE

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

The Company has a comprehensive range of policies and systems in place designed to ensure proper gorvernance, management and control.

2. BOARD MANAGEMENT

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

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

Board Charter

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

Among the key provisions of the Board Charter are:

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

Board Composition

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

Corporate Governance Statement (Continued)

Board Independence and Conflicts of Interest

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

Separation of the Role of the Chairman and the Chief Executive Officer

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

The Chairman

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

The Chairman also ensures:

a) the smooth functioning of the Board, the governance structure and instils a positive culture in the Board;

b) guidelines and procedures are in place to govern the Board's operation and conduct;

c) all relevant issues are on the agenda for Board meetings and all Directors are able to participate fully in the Board's activities;

d) the Board debates strategic and critical issues; and

e) the Board receives the necessary information on a timely basis from management.

The Chief Executive Officer

The Chief Executive Officer is wholly responsible to the Board for the day to day running of the Company and bears ultimate responsibilty for all management functions The Board delegates authority for the operational management of the Company's business to the Chief Executive Officer. The Board holds the Chief Executive Officer responsible for the effective discharge of the delegated responsibilties.

The Chief Executive Officer undertakes the following key responsibilities:

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

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

Board Leadership and Responsibility

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

- The provision of strategic guidance and effective oversight of management and maximization of the Company's financial performance and shareholder value within the framework of appropriate risk assessment.

Corporate Governance Statement (Continued)

- The provision of the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.
- Cognisant of its responsibility for defining appropriate governance practices and to ensure that such practices are followed and periodically reviewed for improvement, the Board has met at regular intervals to, amongst others things:
  - Agree on the Bank's strategic objectives, and its roadmap to achieving the agreed objectives;
  - Review and approve the Bank's annual budget;
  - Review the Bank's performance against approved budget;
  - Review the Bank's policies and procedures;
  - Consider and approve the annual and interim financial statements;
  - Recommend dividends to the shareholders;
  - Evaluate the performance of the Chief Executive Officer, and
  - Deliberate on other matters of fundamental significance.

Appointment, Composition, Size and Qualifications of Board Members

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

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

Principle on Age Limit for Board Members

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

3. RISK MANAGEMENT

Why it matters

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

The Board delegates certain responsibilities to the Board Audit Committee and the Risk Management & Compliance committee to oversee and monitor these risks.

Our approach

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

Our Risk Appetite Policy defines the risk parameters that the Company is willing to accept. The Company's risk appetite seeks to balance the various needs, expectations, risk and reward perspectives and investment horizons

Corporate Governance Statement (Continued)

of key stakeholders. In particular, our risk appetite supports the pursuit of shareholder value while ensuring that all the stakeholders' interests are looked after.

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

Assurance is guaranteed via risk and compliance, internal audit and investigations functions, and external audits. From time to time, the Central Bank of Kenya, the Capital Markets Authority among other regulators conduct inspection and reviews whose recommendations we implement for continuous improvement of our risk management environment.

Relations with Stakeholders

The Board recognises the importance of effective communication with all stakeholders. The Annual General Meeting (AGM),the published annual report and the Company's website are used as platforms to communicate with our stakeholders. The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Companies Act, 2015 and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Shares Office at the Head Office coordinates communication with shareholders through emails, calls and through our branch network. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit our website www.familybank.co.ke

We have regular communication with our stakeholders through customer dinners which are held in various parts of the country across the year. We have a vibrant call centre where our customers and shareholders receive prompt assistance round the clock.

We endeavour to engage our regulators through regular and transparent communication and prompt response to request for information.

4. BOARD ACTIVITIES 2022

a. Board attendance

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

The attendance of the individual directors was as follows:

Name	14.02.22	09.03.22	11.04.22	04.05.22	15.06.22	03.08.22	07.09.22	20.12.22	
Dr. W. Kiboro (Chairman)	Present	Present	Present	Present	Present	Present	Present	Present	100%
Mr. F. Mungai	Present	Present	Present	Present	Present	Present	Present	Present	100%
Mr. T.K. Muya	Present	Present	Alternate	Present	Present	Present	Present	Present	100%
Mr. L. Muema	Present	Present	Present	Present	Present	Present	Present	Present	100%
Ms. M. Mburu	Present	Present	Present	Present	Present	Present	Present	Present	100%
Ms. R. Mbithi	Present	Present	Present	Present	Present	Present	Present	Present	100%

b. Board Training and Continuous Professional Development

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

c. Board Evaluation

The annual Board evaluation was conducted in March 2023 in a process led by the Board Chairman and supported by the Company Secretary.

Corporate Governance Statement (Continued)

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

d. Corporate Events

The Board of Directors is committed to maintaining a strong relationship with our customers and stakeholders. To this end, the Board engaged and attended various customer events where they had the opportunity to interact with them and other stakeholders. These events included customer dinners across the country, tree planting events as part of our environmental, social, and governance (ESG) activities, launches with our partners, and corporate social responsibility events.

5. COMMITTEES OF THE BOARD

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

5.1 Board Audit Committee

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

The Committee held six meetings during the year under review. The members of this committee during the year under review were Mr. L. Muema (Chairman) and Ms. M. Mburu. The Chief Internal Auditor attended all Committee meetings.

5.2 Board Credit Committee

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

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

5.3 Board Risk Management and Compliance Committee

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

The Committee met four times during the year and recorded a quorum during all its meetings. The members of the Committee in the year under review were Ms. M. Mburu (Chairman) and Mr. L. Muema. The Chief Risk Officer attended all Committee meetings.

5.4 Board Human Resource Committee

The Committee acts as the link between the Board and management and is responsible for the review of the human resources policies and practices. The Committee also assists the Managing Director in Human Resources

Corporate Governance Statement (Continued)

Management and ensures that the organisational structure supports the business strategy and growth.

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

5.5 Board Strategy Committee

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

The Strategy Committee held a review of the implementation of the Bank's five-year (2020 – 2024) Strategic Plan. The Committee met three times during the year and achieved quorum in all its meetings. The members of the Committee are Mr. L. Muema (Chairman), Dr W.D Kiboro, Mr T. K Muya and Ms. R. Mbithi.

5.6 Board Nomination and Governance Committee

The Committees regularly reviews the structure, size and composition of the board and make recommendations on any adjustments deemed necessary. It identifies, nominates and recommends for the approval of the board, candidates to fill board vacancies as and when they arise. The Committee members are Dr. W.D Kiboro (Chairman), Mr. F. Mungai and Mr T.K Muya. This committee held two meetings in 2022.

6. BOARD PERFORMANCE

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

7. SHAREHOLDING INFORMATION

a) *Share Capital*

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

b) *Top Ten Shareholders as at 31 December 2022*

No	Shareholder	No. of Shares
1	Kenya Tea Development Agency Holding ltd	212,184,905
2	Estate of Rachael Njeri	167,143,948
3	Daykio Plantations Limited	158,460,364
4	Titus Kiondo Muya	73,408,502
5	Equity Nominees Limited A/C 00084	46,417,000
6	Sanlam Securities Limited	44,444,445
7	Brian Muyah Kiondo	33,448,788
8	Ann Muya	33,428,788
9	Mark Keriri	33,428,788
10	Sheila Kahaki Muya	33,428,788
	Top 10 Shareholders	835,794,316
	Others	415,313,228
	Total Issued Shares	**1,287,107,544**

Corporate Governance Statement (Continued)

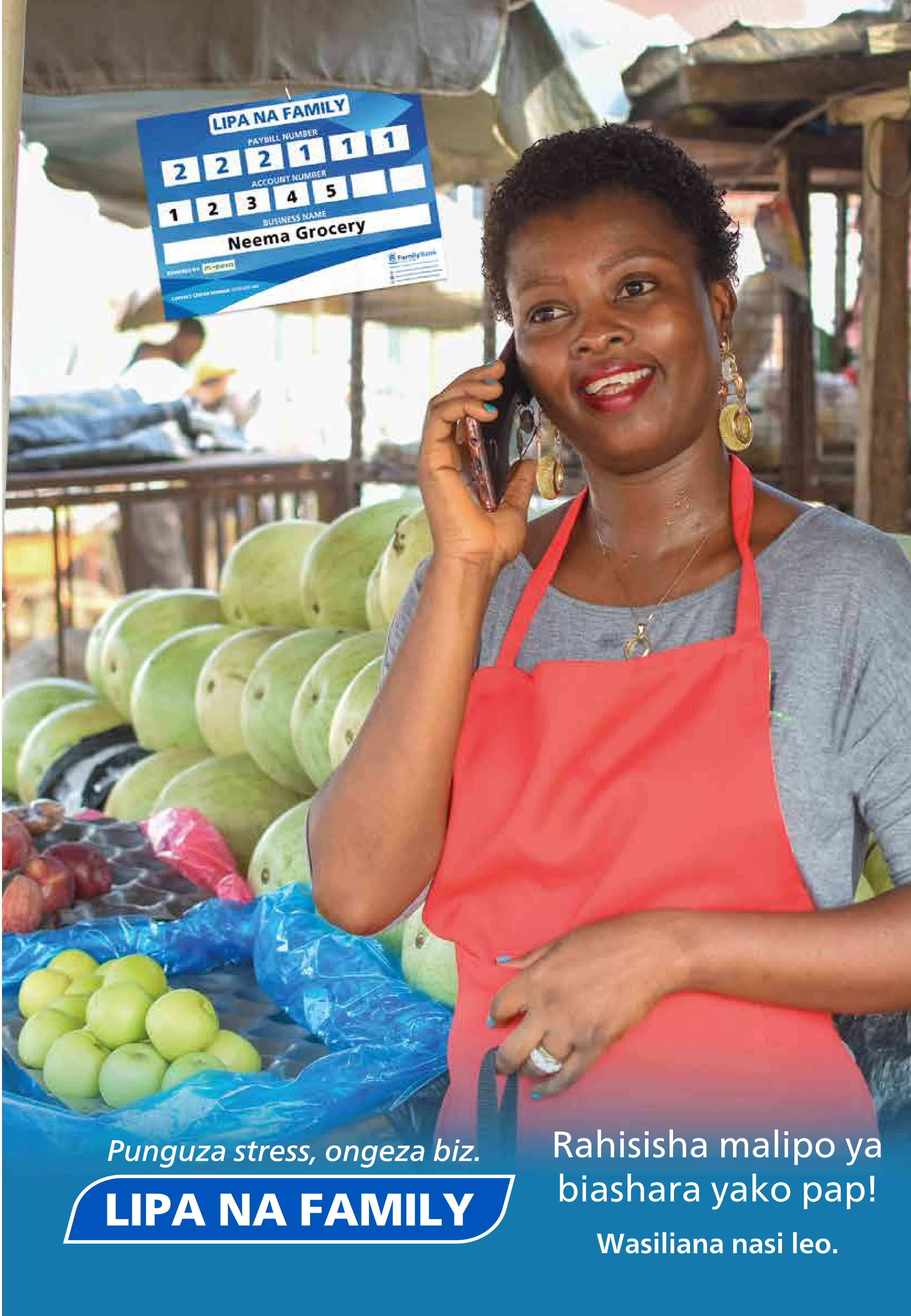
7. SHAREHOLDING INFORMATION (continued)

c) Distribution of Shareholders as at 31 December 2022

	No of Shareholders	No. of Shares	Percentage
10,000,000 - Above	15	972, 839, 214	75.58%
50,000 - 9,999,999	638	259, 598, 405	20.17%
10,000 - 49,999	2,040	37, 227, 271	2.89%
1 - 9,999	3,374	17, 442, 654	1.36%
Total	**6,067**	**1,287,107,544**	**100%**

d) Directors Holdings as at 31 December 2022

Name	No of Shares	Percentage
Dr. W. Kiboro	9,983,962	0.776%
Mr. T.K. Muya	73,408,502	5.672%
Mr. F. Mungai	1,620,404	0.126%
Mr. L. Muema	130,000	0.010%
Ms. M. Mburu	70,000	0.005%
Total	**85,212,868**	**6.589%**


LIPA NA FAMILY
PAYBILL NUMBER
2 2 2 1 1 1
ACCOUNT NUMBER
1 2 3 4 5
BUSINESS NAME
Neema Grocery
Punguza stress, ongeza biz.
LIPA NA FAMILY
Rahisisha malipo ya biashara yako pap!
Wasiliana nasi leo.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Report of the Directors

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 Bank 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 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 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 16.

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

Eric K. Murai
Company Secretary
15 March 2023

Statement of the Directors Responsibilities

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 15th March 2023 and signed on its behalf by:

Dr. Wilfred D. Kiboro
Chairman, Board of Directors

Rebecca Mbithi
Managing Director & CEO

Independent Auditor's Report to the Shareholders of Family Bank Limited

Report on the Audit of the Financial Statements

Our opinion

We have audited the accompanying financial statements of Family Bank Limited (the 'Bank' or 'Company') and its subsidiary (together, the Group) set out on pages 77 to 146, 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 and other explanatory information.

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

pwc

Independent Auditor's Report to the Shareholders of Family Bank Limited (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Expected credit losses on loans and advances at amortised cost

Loans and advances to customers comprise a significant portion of the Group's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.

The policies for estimating ECL are explained in notes 3 (a) and 4.1of the financial statements.

The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:

- the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments;
- the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. Specific assumptions have been applied by management in determining the staging, PD and LGD for certain segments of the loan book; and
- the relevance of forward-looking information used in the models;

Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.

</td><td>

Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:

- We reviewed the Group's methodology for determining ECL, including enhancements in the year, and evaluated this against the requirements of IFRS 9;
- We tested how the Group extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model
- We reviewed judgments applied in the staging of loans and advances;
- We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis;
- For LGD, we tested the assumptions on the timing of the recovery cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports;
- We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures;
- For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios.
- We reviewed and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

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Independent Auditor's Report to the Shareholders of Family Bank Limited (continued)

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

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.

- 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 70 and 71 is consistent with the financial statements.

Richard Njoroge

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 2022 Kshs 000	Consolidated 2021 Kshs 000	Bank 2022 Kshs 000	Bank 2021 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)
Net interest income		**9,083,284**	**7,914,751**	**9,041,747**	**7,882,654**
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)
Net fees and commission income		**1,876,491**	**2,038,121**	**1,876,491**	**2,038,121**
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
Operating income		**12,128,164**	**10,768,645**	**12,049,190**	**10,505,703**
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)
Profit before taxation		**3,744,992**	**3,336,847**	**3,741,970**	**3,144,669**
Income tax expense	11	(1,531,280)	(1,028,201)	(1,470,788)	(969,392)
Profit for the year		**2,213,712**	**2,308,646**	**2,271,182**	**2,175,277**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair value loss on debt financial assets at fair value through other comprehensive income (net of tax)		(626,729)	(172,561)	(626,729)	(172,561)
Total other comprehensive income		**(626,729)**	**(172,561)**	**(626,729)**	**(172,561)**
Total comprehensive income for the year		**1,586,983**	**2,136,085**	**1,644,453**	**2,002,716**
Earnings per share (basic and diluted) (Kshs)	12	**1.72**	**1.79**	**1.76**	**1.69**

Statement of Financial Position

	Notes	Consolidated 2022 Kshs 000	Consolidated 2021 Kshs 000	Bank 2022 Kshs 000	Bank 2021 Kshs 000
Assets					
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
Total assets		**128,513,113**	**111,736,995**	**128,465,438**	**111,683,065**
Liabilities and shareholders' funds					
Liabilities					
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	-	-
Total liabilities		**112,402,084**	**96,144,649**	**112,725,004**	**96,518,784**
Shareholders' funds					
Share capital	29	1,287,108	1,287,108	1,287,108	1,287,108
Share premium		5,874,662	5,874,662	5,874,662	5,874,662
Revaluation surplus		278,424	278,424	278,424	278,424
Fair value reserve		(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
Total shareholders' funds		16,111,029	15,592,346	15,740,434	15,164,281
Total liabilities and shareholders' funds		**128,513,113**	**111,736,995**	**128,465,438**	**111,683,065**

The financial statements on pages 77 to 146 were approved for issue by the board of directors on 15th March 2023 and were signed on its behalf by:

Dr. Wilfred D. Kiboro
Chairman, Board of Directors

Rebecca Mbithi
Managing Director & CEO

Consolidated Statement of Changes in Equity

	Share capital Kshs 000	Share premium Kshs 000	Revaluation surplus Kshs 000	Fair value reserve Kshs 000	Retained earnings Kshs 000	Proposed Dividend Kshs 000	Statutory reserve Kshs 000	Total Kshs 000
Year ended 31 December 2021								
At start of year	**1,287,108**	**5,874,662**	**278,424**	**(13,777)**	**6,029,844**	**-**	**-**	**13,456,261**
Comprehensive income								
Profit for the year	-	-	-	-	2,308,646	-	-	2,308,646
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend	-	-	-	-	(1,087,638)	1,087,638	-	-
At 31 December 2021	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,881,691**	**1,087,638**	**369,161**	**15,592,346**
Year ended 31 December 2022								
At start of year	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,881,691**	**1,087,638**	**369,161**	**15,592,346**
Comprehensive income								
Profit for the year	-	-	-	-	2,213,712	-	-	2,213,712
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(626,729)	-	-	-	(626,729)
Transfer to statutory reserves	-	-	-	-	(1,408,122)	-	1,408,122	-
Transaction with owners in their capacity as owners								
Proposed dividend	-	-	-	-	(794,914)	794,914	-	-
Prior period dividend adjustment	-	-	-	-	19,338	(19,338)	-	-
Dividend paid	-	-	-	-	-	(1,068,300)	-	(1,068,300)
At 31 December 2022	**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

	Share capital	Share premium	Revaluation surplus	Fair value reserve	Retained earnings	Proposed Dividend	Statutory reserve	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000		Kshs 000	Kshs 000
Year ended 31 December 2021								
At start of year	**1,287,108**	**5,874,662**	**278,424**	**(13,777)**	**5,735,148**	**-**	**-**	**13,161,565**
Comprehensive income								
Profit for the year	-	-	-	-	2,175,277	-	-	2,175,277
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(172,561)	-	-	-	(172,561)
Transfer to statutory reserves	-	-	-	-	(369,161)	-	369,161	-
Transaction with owners in their capacity as owners								
Proposed dividend	-	-	-	-	(1,087,638)	1,087,638	-	-
At 31 December 2021	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,453,626**	**1,087,638**	**369,161**	**15,164,281**
Year ended 31 December 2022								
At start of year	**1,287,108**	**5,874,662**	**278,424**	**(186,338)**	**6,453,626**	**1,087,638**	**369,161**	**15,164,281**
Comprehensive income								
Profit for the year	-	-	-	-	2,271,182	-	-	2,271,182
Other comprehensive income								
Fair value loss on financial assets at fair value through other comprehensive income (net of tax)	-	-	-	(626,729)	-	-	-	(626,729)
Transfer to statutory reserves	-	-	-	-	(1,408,122)	-	1,408,122	-
Transaction with owners in their capacity as owners								-
Proposed dividend		-	-	-	(794,914)	794,914	-	-
Prior period dividend adjustment	-	-	-	-	19,338	(19,338)	-	-
Dividend paid	-	-	-	-	-	(1,068,300)	-	(1,068,300)
At 31 December 2022	**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

		Consolidated		Bank	
		2022	2021	2022	2021
	Notes	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Cash flows from operating activities					
Cash used in operations	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)**
Cash flows from investing activities					
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)**
Cash flows from financing activities					
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 Bank 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 14.

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, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	Annual periods beginning on or after 1 January 2022
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 (continued)

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

Title	Key requirements	Effective Date
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
Annual improvements cycle 2018 -2020	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.	Annual periods beginning on or after 1 January 2022

None of these ammendments 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 (continued)

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

Title	Key requirements	Effective Date
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.

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:

Notes (Continued)

2 Significant accounting policies (continued)

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.

(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.

Notes (Continued)

2 Significant accounting policies (continued)

The Group classifies its financial assets into the following categories:

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

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

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

(i) Financial assets

Recognition and Subsequent measurement

(a) Debt instruments

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

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

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

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

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

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.

Notes (Continued)

2 Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial assets (continued)

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.

Modification of loans

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

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

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

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.

Notes (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

Repossessed collateral

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

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

(ii) Financial liabilities

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

Notes (Continued)

2 Significant accounting policies (continued)

(ii) Financial liabilities (continued)

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.

(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.

(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.

Notes (Continued)

2 Significant accounting policies (continued)

(l) Intangible assets (continued)

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

(n) Investment properties

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.

Notes (Continued)

2 Significant accounting policies (continued)

(p) Income tax (continued)

(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.

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.

(r) Statutory reserve

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

(s) Leases

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

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

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

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

Notes (Continued)

2 Significant accounting policies (continued)
Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily

determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

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

(t) Cash and cash equivalents

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

(u) Employee benefit costs

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

The Group and its employees also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.
The Group's contributions in respect of retirement benefit costs are charged to the profit and loss in the period to which they relate. Employee entitlement to leave not taken is charged to profit or loss as it accrues.

(v) Sale and repurchase agreements

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

(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.

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.

Notes (Continued)

2 Significant accounting policies (continued)
3 Critical accounting estimates and judgements (continued)

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.

(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.

4 Financial Risk Management disclosures

Risk management framework

The Group defines reisk 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

Notes (Continued)

2 Significant accounting policies (continued)
4 Financial Risk Management disclosures (continued)

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.

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

Notes (Continued)

4 Financial Risk Management disclosures (continued)

4.1 Credit risk (continued)

through sale of collateral.

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

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

4.1.1 Loans and advances

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

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

(i) Significant Increase in credit risk (SICR)

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

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

Quantitative criteria

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

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

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

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.

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:

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

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)

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

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

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

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.

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

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

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

Risk limit control and mitigation policies

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

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

	Exposure 2022 Kshs 000	Exposure 2021 Kshs 000
On – balance sheet items		
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
	119,167,631	**102,318,081**
Off-balance sheet items		
Guarantees and letters of credit	9,868,372	8,656,566
	129,036,003	**110,974,647**

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)

(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:

	2022	2021
Loans and advances to customers	**Kshs 000**	**Kshs 000**
Gross loans and advances to customers	**85,807,273**	**71,974,208**
Of which stage 1 and 2	73,376,033	60,917,959
Of which stage 3	12,431,240	11,056,249
Expected credit loss provisions	**4,426,763**	**5,072,384**
Of which stage 1 and 2	1,335,799	1,339,188
Of which stage 3	3,090,964	3,733,196
Net loans and advances to customers	**81,380,510**	**66,901,824**
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)

4.1 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.

2022 Loans and advances to customers	Term loans Kshs 000	Mortgage Kshs 000	Overdraft and credit cards Kshs 000	Total Kshs 000	Off Balance Sheet Kshs 000
Gross loans and advances to customers	**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	-
Expected credit loss provisions	**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	-
Net loans and advances to customers	**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	-

2021 Loans and advances to customers	Term loans Kshs 000	Mortgage Kshs 000	Overdraft and credit cards Kshs 000	Total Kshs 000	Off Balance Sheet Kshs 000
Gross loans and advances to customers	**59,693,703**	**9,074,329**	**3,206,176**	**71,974,208**	**1,742,217**
Of which stage 1 and 2	50,766,700	7,487,440	2,663,819	60,917,959	1,742,217
Of which stage 3	8,927,003	1,586,889	542,357	11,056,249	-
Expected credit loss provisions	**4,579,090**	**214,022**	**279,272**	**5,072,384**	**553**
Of which stage 1 and 2	1,225,536	56,848	56,804	1,339,188	553
Of which stage 3	3,353,554	157,174	222,468	3,733,196	
Net loans and advances to customers	**55,114,613**	**8,860,307**	**2,926,904**	**66,901,824**	**1,741,664**
Of which stage 1 and 2	49,541,164	7,430,592	2,607,015	59,578,771	1,741,664
Of which stage 3	5,573,449	1,429,715	319,889	7,323,053	-

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

31 December 2022 Loss allowance as at 1 January 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	**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)
Loss allowance as at 31 December 2022	**876,267**	**459,532**	**3,090,964**	**4,426,763**

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 2021	**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)
Loss allowance as at 31 December 2021	**565,641**	**773,547**	**3,733,196**	**5,072,384**

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

Term loans	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
Loans and advances as at 1 January 2022	**44,801,645**	**5,457,176**	**9,434,882**	**59,693,703**
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)
Loans and advances as at 31 December 2022	**56,519,485**	**3,783,432**	**9,461,842**	**69,764,759**

Mortgage loans	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
Loans and advances as at 1 January 2022	**6,904,527**	**582,913**	**1,586,889**	**9,074,329**
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)
Loans and Advances as at 31 December 2022	**9,699,146**	**649,655**	**1,790,924**	**12,139,725**

Notes (Continued)

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

Overdrafts and credit cards	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
Loans and advances as at 1 January 2022	**1,998,522**	**665,296**	**542,358**	**3,206,176**
Changes in the gross loans				
– Transfer to stage 1	172,475	(168,518)	(3,957)	-
– Transfer to stage 2	(63,515)	66,710	(3,195)	-
– Transfer to stage 3	(67,788)	(455,621)	523,409	-
Changes in models/risk parameters	77,097	84,247	(41,074)	120,270
New financial assets originated or purchased	828,563	33,420	249,528	1,111,511
Financial assets that have been derecognised	(409,868)	(36,705)	(88,595)	(535,168)
Loans and Advances as at 31 December 2022	**2,535,486**	**188,829**	**1,178,474**	**3,902,789**

Off Balance Sheet Facilities	Stage 1 Kshs 000	Stage 2 Kshs 000	Stage 3 Kshs 000	Total Kshs 000
Loans and advances as at 1 January 2022	**1,742,217**	**-**	**-**	**1,742,217**
Changes in the gross loans				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
Changes in models/risk parameters	780,381	-	-	780,381
New financial assets originated or purchased	2,074,122	-	-	2,074,122
Financial assets that have been derecognised	(1,342,888)	-	-	(1,342,888)
Loans and Advances as at 31 December 2022	**3,253,832**	**-**	**-**	**3,253,832**

Notes (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

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL Kshs 000	Stage 2 Lifetime ECL Kshs 000	Stage 3 Lifetime ECL Kshs 000	Total Kshs 000
Loss allowance as at 1 January 2022	**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)	-
Loss allowance as at 31 December 2022	**853,060**	**394,382**	**2,767,119**	**4,014,561**

2021

Loss allowance as at 1 January 2021	**594,489**	**224,976**	**3,090,481**	**3,909,946**
Changes in the loss allowance				
- Transfer to stage 1	104,015	(62,492)	(41,523)	-
- Transfer to stage 2	(22,589)	89,449	(66,860)	-
- Transfer to stage 3	(11,614)	(63,604)	75,218	-
- 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	-
Loss allowance as at 31 December 2021	**546,554**	**678,982**	**3,353,554**	**4,579,090**

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	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	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	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)	-
Loss allowance as at 31 December 2022	**28,543**	**42,182**	**295,848**	**366,573**
Loss allowance as at 1 January 2021	**78,899**	**22,312**	**263,100**	**364,311**
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)
Foreign exchange and other movements	(38)	147	(109)	-
Loss allowance as at 31 December 2021	**16,336**	**40,468**	**222,468**	**279,272**

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 gross carrying amount by class of financial instruments.

Other financial assets	Cash & Bank Balances Kshs 000	Loans to Banks Kshs 000	Financial assets FVTOCI Kshs 000	Financial assets FVTPL Kshs 000	Financial assets Amortized cost Kshs 000	Total Kshs 000
Gross carrying amount as at 1 January 2022	**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)
Gross carrying amount as at 31 December 2022	**8,992,039**	**5,589,075**	**10,826,810**	**853,628**	**14,074,248**	**40,335,800**

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

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

Notes (Continued)

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.

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.

Notes (Continued)

4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)
4.1.1 Credit risk (continued)

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.

1.1.2 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.

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

	2022		2021	
	Kshs 000	%	Kshs 000	%
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
	81,380,510	**100**	**66,901,824**	**100**
(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	-
	88,903,786	**100**	**81,911,522**	**100**
(iii) Off balance sheet items				
Letters of credit and guarantees	9,868,372	100	8,656,566	100
	9,868,372	**100**	**8,656,566**	**100**

Notes (Continued)

4.1 Credit risk (continued)
4.1.1 Loans and advances (continued)
4.1.1 Credit risk (continued)

Incorporation of forwardlooking information

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

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

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
Inflation					
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3
Exchange rates	0.5	0.5	0.5	0.5	0.5
- Base scenario	0.2	0.2	0.2	0.2	0.2
- Range of upside scenarios	0.3	0.3	0.3	0.3	0.3
- Range of downside scenarios					
	0.5	0.5	0.5	0.5	0.5
Benchmark interest rates	0.2	0.2	0.2	0.2	0.2
- Base scenario	0.3	0.3	0.3	0.3	0.3
- Range of upside scenarios					
- Range of downside scenarios	0.5	0.5	0.5	0.5	0.5
	0.2	0.2	0.2	0.2	0.2
Reserves	0.3	0.3	0.3	0.3	0.3
- Base scenario	0.5	0.5	0.5	0.5	0.5
- Range of upside scenarios	0.2	0.2	0.2	0.2	0.2
- Range of downside scenarios	0.3	0.3	0.3	0.3	0.3

Sensitivity analysis

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

Set out below are the changes to the ECL as at 31 December 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%
	Kshs 000	Kshs 000
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.

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
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
Total financial liabilities	**59,429,935**	**10,282,994**	**35,114,615**	**9,359,212**	**3,957,695**	**118,144,451**
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
Total financial assets	**42,489,323**	**6,623,202**	**6,321,671**	**48,190,832**	**44,247,326**	**147,872,354**
(Gap)/surplus	**(16,940,612)**	**(3,659,792)**	**(28,792,944)**	**38,831,620**	**40,289,631**	**29,727,903**

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
Total financial liabilities	**51,541,150**	**8,249,490**	**17,436,648**	**16,148,267**	**3,943,903**	**97,319,458**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,700,646
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	34,432,864	4,733,636	7,129,891	39,768,638	43,926,044	129,991,073
(Gap)/surplus	**(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

As at 31 December 2022	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Balances due to banks	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
Total financial liabilities	**58,875,158**	**10,282,994**	**35,114,615**	**9,359,212**	**3,957,695**	**117,589,674**
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
Total financial assets	**42,447,802**	**6,623,202**	**6,321,671**	**48,190,832**	**44,247,326**	**147,830,833**
(Gap)/surplus	**(16,427,356)**	**(3,659,792)**	**(28,792,944)**	**38,831,620**	**40,289,631**	**30,241,159**

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

As 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	46,629,907	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
Total financial liabilities	**52,609,662**	**8,249,490**	**17,292,529**	**16,148,267**	**3,943,903**	**98,243,851**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	11,007	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	39,757,631	34,475,347	90,427,795
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	**34,394,727**	**4,733,636**	**7,129,891**	**39,768,638**	**43,926,044**	**129,941,929**
(Gap)/surplus	**(18,214,935)**	**(3,515,854)**	**(10,162,638)**	**23,620,371**	**39,982,141**	**31,698,078**

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
		14,402,842	18,982,079

Notes (Continued)

4. Financial risk management disclosures (continued)

4.3 Market risk

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

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

Management of market risks

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

i) Interest rate risk

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

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

Notes (Continued)

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

(i) Interest rate risk - Group

31 December 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
Financial liabilities						
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
Total financial liabilities	**59,458,429**	**9,417,133**	**32,921,583**	**6,738,446**	**3,957,695**	**112,376,760**
Financial assets						
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
Total financial assets	**11,271,474**	**82,911,034**	**5,601,365**	**621,745**	**23,104,702**	**123,510,320**
(Gap)/surplus	**(48,186,955)**	**73,493,901**	**(27,320,218)**	**(6,116,701)**	**19,147,007**	**11,133,560**

(i) Interest rate risk - Group

31 December 2021	Non-interest bearing Kshs 000	0 - 3 Months Kshs 000	4 - 12 months Kshs 000	1-5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
Financial liabilities						
Balances due to banks	-	2,281,200	-	-	-	2,281,200
Customer deposits	44,937,018	8,249,490	17,137,543	11,587,472	-	81,911,523
Borrowings	-	-	-	4,297,891	3,943,903	8,241,794
Provisions	549,497	-	-	-	-	549,497
Other liabilities	1,613,430	-	144,119	-	-	1,757,549
Lease liabilities	1,139,178	-	-	-	-	1,139,178
Total financial liabilities	**48,239,123**	**10,530,690**	**17,281,662**	**15,885,363**	**3,943,903**	**95,880,741**
Financial assets						
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,011,007	164,957	73,985	-	9,450,697	24,700,646
Loans and advances	-	66,901,824	-	-	-	66,901,824
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	1,006,508	-	-	-	-	1,006,508
Total financial assets	**28,517,659**	**67,066,781**	**1,429,965**	**-**	**9,450,697**	**106,465,102**
(Gap)/surplus	**(19,721,464)**	**56,536,091**	**(15,851,697)**	**-**	**5,506,794**	**10,584,361**

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**

(i) Interest rate risk - Bank

As 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	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
Total financial liabilities	**51,039,338**	**8,249,490**	**17,292,529**	**19,524,926**	**304,340**	**96,410,623**
Cash-in hand	3,960,569	-	-	-	-	3,960,569
Balances with CBK	4,252,348	-	-	-	-	4,252,348
Balances due from banks	4,287,227	-	-	-	-	4,287,227
Government securities	15,000,000	164,957	73,985	-	9,450,697	24,689,639
Loans and advances	5,926,212	4,568,679	5,699,926	27,994,646	22,712,362	66,901,825
Other investments	-	-	1,355,980	-	-	1,355,980
Other assets	968,371	-	-	-	-	968,371
Total financial assets	**34,394,727**	**4,733,636**	**7,129,891**	**27,994,646**	**32,163,059**	**106,415,959**
(Gap)/surplus	**(16,644,611)**	**(3,515,854)**	**(10,162,638)**	**8,469,720**	**31,858,719**	**10,005,336**

Notes (Continued)

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

	USD	GBP	EURO	Total
As at 31 December 2022	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
Financial assets				
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
Financial liabilities				
Borrowings	(5,594,877)	-	-	(5,594,877)
Net currency exposure	**(1,736,805)**	**160,263**	**227,187**	**(1,349,354)**
As at 31 December 2021				
Financial assets				
Deposits and balances due from banking institutions	2,987,994	199,449	187,966	3,375,409
Financial liabilities				
Borrowings	(3,190,131)	-	-	(3,190,131)
Net currency exposure	**(202,137)**	**199,449**	**187,966**	**185,278**

Notes (Continued)

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.

1.4 Fair value of financial assets and liabilities

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

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

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
2022- Group	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Financial assets				
Government securities at FVOCI	10,826,810	-	-	10,826,810
Govt securities at FVTPL	853,628	-	-	853,628
2021 – Group				
Government securities at FVOCI	9,546,922	-	-	9,546,922
Govt securities at FVTPL	1,568,955	-	-	1,568,955
2022 - Bank				
Financial assets				
Government securities at FVOCI	10,826,810	-	-	10,826,810
Govt securities at FVTPL	853,628	-	-	853,628
2021 - Bank				
Financial assets				
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)
1.4 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.

Group At 31 December 2022	Level 1 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Fair value Kshs 000	Carrying value Kshs 000
Assets					
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
Liabilities					
Deposits from customers	-	-	88,903,786	88,903,786	88,903,786
Borrowings	-	10,532,651	-	10,532,651	10,532,651
At 31 December 2021					
Assets					
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
Liabilities					
Deposits from customers	-	-	83,085,397	83,085,397	81,911,523
Borrowings	-	8,504,698	-	8,504,698	8,241,794

Bank At 31 December 2022	Level 1 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Fair value Kshs 000	Carrying value Kshs 000
Assets					
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
Liabilities					
Deposits from customers	-	-	90,650,116	90,650,116	89,343,232
Borrowings	-	10,532,651	-	10,532,651	10,532,651

Notes (Continued)

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

At 31 December 2021	Level 1 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Fair Value Kshs 000	Carrying Value Kshs 000
Assets					
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
Liabilities					
Deposits From Customers	-	-	83,604,412	83,604,412	82,430,538
Borrowings	-	8,504,698	-	8,504,698	8,241,794

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 Bank 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)
a) Regulatory capital (continued)

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

	2022 Kshs 000	2021 Kshs 000
Tier 1 capital		
Share capital	1,287,108	1,287,108
Share premium	5,874,662	5,874,662
Retained earnings	6,541,111	6,453,624
Total Tier 1 capital	**13,702,881**	**13,615,394**
Tier 2 capital		
Revaluation reserves (25%)	69,606	69,606
Term subordinated debt	4,000,000	4,000,000
Statutory reserve	1,777,283	369,161
Total Tier 2 capital	**5,846,889**	**4,438,767**
Total regulatory capital	**19,549,770**	**18,054,161**
Risk-weighted assets	**94,588,542**	**83,080,132**
Capital ratios		
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%

6

(a) Interest income	Group		Bank	
	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
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
	13,819,961	**11,156,351**	**13,819,961**	**11,156,351**
(b) investment income				
Interest on financial instruments at FVTPL	105,385	120,423	105,385	120,423

Notes (Continued)

7 Interest expense

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
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
	4,736,677	**3,241,600**	**4,778,214**	**3,273,697**

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
	2,263,453	**2,340,395**	**2,263,453**	**2,340,395**
(b) Fees and commission expense	(386,962)	(302,274)	(386,962)	(302,274)

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

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

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

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
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
	7,076,041	**6,155,660**	**7,000,089**	**6,084,896**

Notes (Continued)

10 Staff costs

	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
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
	3,430,205	**2,579,703**	**3,375,300**	**2,529,477**

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)

11 Income tax expense

	Group		Bank	
	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
(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	**1,531,280**	**1,028,201**	**1,470,788**	**969,392**

b) Reconciliation of accounting profit to tax charge

Profit before taxation	3,744,992	3,336,847	3,741,970	3,144,669
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
	1,531,280	**1,028,201**	**1,470,788**	**969,392**

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.

	Group		Bank	
	2022	2021	2022	2021
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

	2022 Kshs 000	2021 Kshs 000
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

	2022 Kshs 000	2021 Kshs 000
(a) Balances due from banking institutions maturing within 90 days:		
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) Balances due to banking institutions maturing within 90 days:		
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

	Group		Bank	
	2021	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
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
	25,754,686	**24,700,645**	**25,744,173**	**24,689,639**
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
	25,754,686	**24,700,645**	**25,744,173**	**24,689,639**

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)

16 Loans and advances to customers- Group & Bank

(a) Loans and advances at amortised cost

Gross total	2022	2021
	Kshs 000	Kshs 000
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
Total Gross	**85,807,273**	**71,974,208**
Provisions		
Term loans	(4,014,561)	(4,579,090)
Mortgage	(45,629)	(214,022)
Overdraft and credit cards	(366,573)	(279,272)
Total Provisions	**(4,426,763)**	**(5,072,384)**
Net total	**81,380,510**	**66,901,824**

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.

Notes (Continued)

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

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

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.

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

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.

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

(c) Capital commitments

	2022 Kshs 000	2021 Kshs 000
Authorised and contracted for	143,160	190,326
Authorised but not contracted for	116,651	78,503

18 Other assets

	Group		Bank	
	2022 Kshs 000	2021 Kshs 000	2022 Kshs 000	2021 Kshs 000
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
	1,794,011	**1,006,508**	**1,763,001**	**968,371**

All other assets are current.

19 Other investments

	Bank and Group	
	2022 Kshs 000	2021 Kshs 000
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	-	(126,804)
	-	**1,355,980**

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

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.

Notes (Continued)

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	-
At end of year	**28,600**	**23,400**

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	-

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
At 31 December 2022				
Investment properties	-	-	28,600	28,600
At 31 December 2021				
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

	Freehold Land Kshs 000	Buildings Kshs 000	Leasehold improvements Kshs 000	Computer Kshs 000	Motor vehicles Kshs 000	Fixtures, fittings and equipment Kshs 000	Total Kshs 000
Cost/ Valuation							
Year ended 31 December 2021							
At 1 January 2021	590,000	460,000	2,845,714	2,277,273	121,037	1,433,357	7,727,381
Additions	-	-	72,189	169,812	17	38,632	280,650
At 31 December 2021	**590,000**	**460,000**	**2,917,903**	**2,447,085**	**121,054**	**1,471,989**	**8,008,031**
Depreciation							
At 1 January 2021	-	(11,099)	(2,228,887)	(2,133,279)	(114,939)	(1,028,176)	(5,516,380)
Charge for the year	-	(11,099)	(200,429)	(91,949)	(2,666)	(123,531)	(429,674)
At 31 December 2021	**-**	**(22,198)**	**(2,429,316)**	**(2,225,228)**	**(117,605)**	**(1,151,707)**	**(5,946,054)**
Net book value at 31 December 2021	**590,000**	**437,802**	**488,587**	**221,857**	**3,449**	**320,282**	**2,061,977**
Year ended 31 December 2022							
At 1 January 2022	590,000	460,000	2,917,903	2,447,085	121,054	1,471,989	8,008,031
Additions	76,500	-	130,370	165,426	73,146	34,707	480,149
At 31 December 2022	**666,500**	**460,000**	**3,048,273**	**2,612,511**	**194,200**	**1,506,696**	**8,488,180**
Depreciation							
At 1 January 2022	-	(22,198)	(2,429,316)	(2,225,228)	(117,605)	(1,151,707)	(5,946,054)
Charge for the year	-	(11,099)	(188,799)	(89,703)	(7,948)	(112,067)	(409,616)
At 31 December 2022	-	(33,297)	(2,618,115)	(2,314,931)	(125,553)	(1,263,774)	(6,355,670)
Net book value at 31 December 2022	**666,500**	**426,703**	**430,158**	**297,580**	**68,647**	**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

	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and Equipment	Total
Cost/ Valuation	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Year ended 31 December 2021							
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**
Depreciation							
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)**
Net book value at 31 December 2021	**590,000**	**437,802**	**489,740**	**217,470**	**-**	**326,374**	**2,061,386**
Year ended 31 December 2022							
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**
Depreciation							
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)**
Net book value at 31 December 2022	**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
Cost				
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	
At 31 December	**1,707,173**	**1,606,743**	**1,679,518**	**1,579,088**
Amortisation				
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
At 31 December	**1,408,891**	**1,280,632**	**1,387,893**	**1,263,837**
Net book value at 31 December	**298,282**	**326,111**	**291,625**	**315,251**

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
Leasehold land:		
Cost		
At 1 January and 31 December	180,335	180,335
Amortisation		
At 1 January	47,782	45,752
Charge for the year	4,637	2,030
At 31 December	**52,419**	**47,782**
Net book value		
At 31 December	**127,916**	**132,553**

25 Customer deposits

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Customer deposits				
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
	88,903,786	**81,911,522**	**89,343,232**	**82,430,539**

Notes (Continued)

25 Customer deposits (continued)

Maturity analysis of customer deposits	Group 2022 Kshs 000	Group 2021 Kshs 000	Bank 2022 Kshs 000	Bank 2021 Kshs 000
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
	88,903,786	**81,911,522**	**89,343,232**	**82,430,537**

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

	2022 Kshs 000	2021 Kshs 000
(a) Analysis		
Development Financial Institutions		
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	-
	6,574,956	**4,297,891**
Subordinated Bond		
Subordinated Bond	4,011,827	4,011,568
Unamortized origination fees	(54,132)	(67,665)
	3,957,695	**3,943,903**
Total borrowings	**10,532,651**	**8,241,794**
(b) Movement:		
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	**10,532,651**	**8,241,794**

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:

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

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

Bank	2022 Kshs 000	2021 Kshs 000
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
Deferred income tax asset end of year	**1,771,064**	**1,805,110**

Deferred income tax asset Bank	Balance at 1 January	Prior year over/(under) provision	Recognised in profit or loss	Recognised in Other comprehensive income	Balance at 31 December
2022	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Property and equipment	373,456	56,500	117,255	-	547,211
Other deductible differences	1,431,654	-	(207,541)	(260)	1,223,853
	1,805,110	**56,500**	**(90,286)**	**(260)**	**1,771,064**
2021					
Deferred tax asset					
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**
Deferred tax liability (Family Bancassurance Intermediary limited)					
Property and equipment	(1,276)	(29)	394	-	(911)
Other deductible differences	150	-	-	-	150
	(1,126)	**(29)**	**394**	**-**	**(761)**

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
Bank					
2022	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**	**Kshs 000**
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**
2021					
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

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

Movement in issued and fully paid shares

	Number of shares	Share capital Kshs 000	Share premium Kshs 000	Total Kshs 000
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

	Group		Bank	
	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
Profit before taxation	3,744,992	3,336,847	3,741,970	3,144,669
Adjustments for:				
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	-
Changes in working capital items:				
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 orgination fees	-	(64,616)	-	(64,616)
Cash generated from operations	**(12,690,357)**	**(9,665,895)**	**(12,716,232)**	**(9,659,402)**

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
	Kshs 000	Kshs 000	Kshs 000	Kshs 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)
	3,154,188	**5,966,596**	**3,154,188**	**5,966,596**

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 Kshs 000	Retail banking Kshs 000	Other Kshs 000	Total Kshs 000
Interest income	5,527,984	8,291,977	-	13,819,961
Interest expense	(1,911,286)	(2,866,929)	41,537	(4,736,678)
Net interest income	**3,616,698**	**5,425,048**	**41,537**	**9,083,283**
Fee and commission income	905,382	1,158,072	-	2,063,454
Fee and commission expense	(154,785)	(232,178)	-	(386,963)
Net fees and commission income	**750,597**	**925,894**	**-**	**1,676,491**
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
Operating income	**4,819,676**	**7,029,514**	**278,974**	**12,128,164**
Operating expenses	(2,800,036)	(4,200,054)	(75,952)	(7,076,042)
Credit impairment losses	(522,852)	(784,278)	-	(1,307,130)
Profit before taxation	**1,496,788**	**2,045,182**	**203,022**	**3,744,992**
Income tax expense	(588,315)	(881,765)	(61,200)	(1,531,280)
Other comprehensive income	(626,729)			(626,729)
Profit for the year	**281,744**	**1,163,417**	**141,822**	**1,586,983**

Profit or loss for the year ended 31 December 2021

	Wholesale banking Kshs 000	Retail banking Kshs 000	Other Kshs 000	Total Kshs 000
Interest income	4,462,540	6,693,811	-	11,156,351
Interest expense	(1,309,479)	(1,964,218)	32,097	(3,241,600)
Net interest income	**3,153,062**	**4,729,592**	**32,097**	**7,914,751**
Fee and commission income	936,158	1,404,237	-	2,340,395
Fee and commission expense	(120,910)	(181,364)	-	(302,274)
Net fees and commission income	**815,248**	**1,222,873**	**-**	**2,038,121**
Investment income	48,169	72,254	-	120,423
Net trading income	118,968	178,453	-	297,421
Other income	66,834	100,250	230,845	397,929
Operating income	**4,202,281**	**6,303,422**	**262,942**	**10,768,645**
Operating expenses	(2,433,958)	(3,650,938)	(70,764)	(6,155,660)
Credit impairment losses	(510,455)	(765,683)		(1,276,138)
Profit before taxation	**1,257,868**	**1,886,801**	**192,178**	**3,336,847**
Income tax expense	(387,757)	(581,635)	(58,809)	(1,028,201)
Other comprehensive income	(172,561)	-	-	(172,561)
Profit for the year	**697,550**	**1,305,166**	**133,369**	**2,136,085**

Notes (Continued)

32 Operating segments (continued)

Statement of financial position as at 31 December 2022

	Wholesale banking Kshs 000	Retail banking Kshs 000	Others Kshs 000	Total Kshs 000
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	-
Total liabilities and equity	**51,320,721**	**76,981,081**	**211,311**	**128,513,113**
Other disclosures				
Capital expenditure	**225,880**	**338,820**	**-**	**564,700**

Statement of financial position as at 31 December 2021

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

Notes (Continued)

The Bank as a lessee

(a) Right of use asset

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

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

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

(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

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
	843,009	**1,139,178**

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	**843,009**	**1,139,178**

34 Related party transactions

Notes (Continued)

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	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
(a) Loans and advances				
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	**4,190,805**	**2,879,543**	**4,190,805**	**2,879,543**

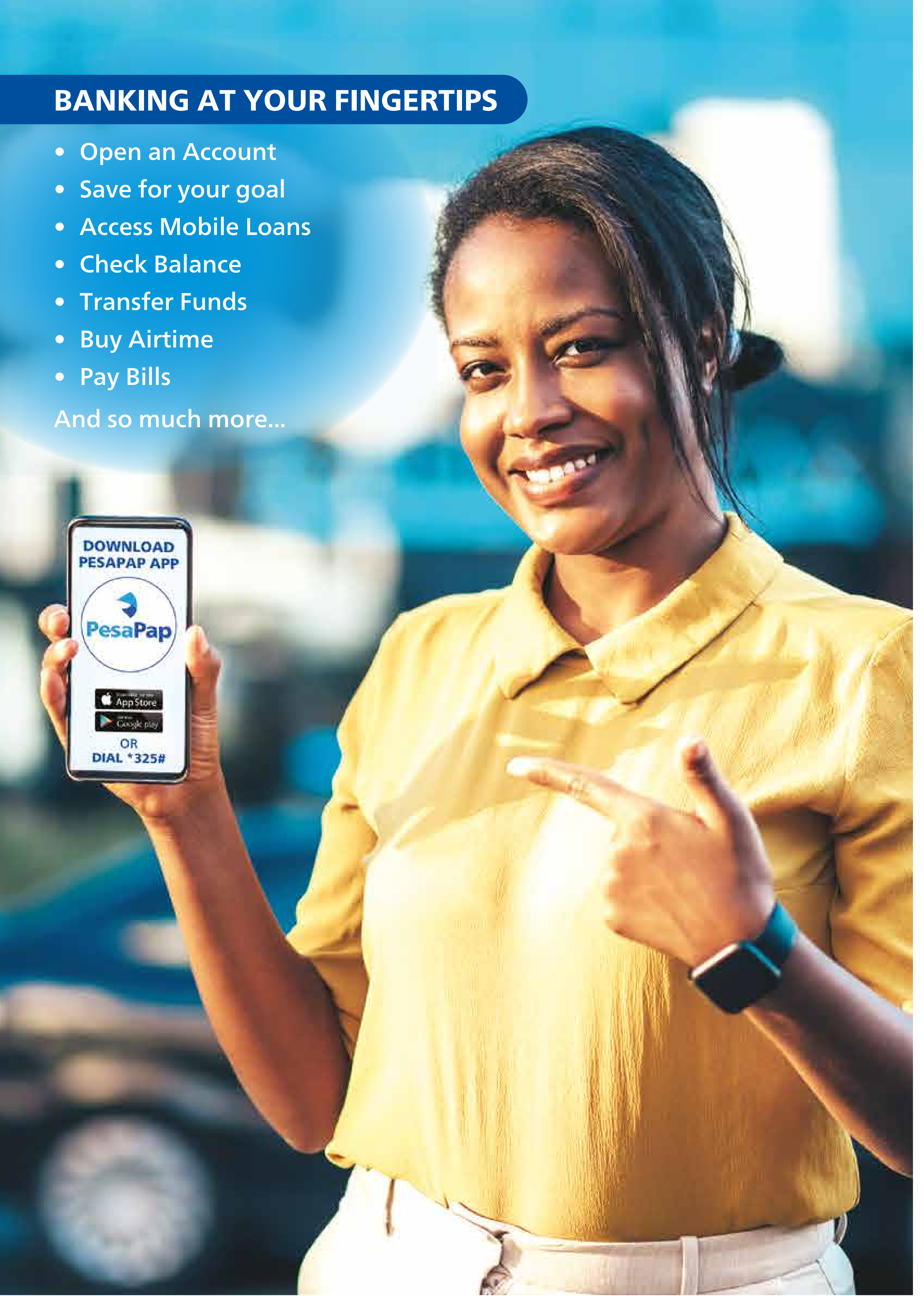
As at 31 December 2022 loans and advances to staff amounted to Sh1,313,394,000 (2021 – Sh 1,451,377,000). The loans and advances to related parties are performing and adequately secured.

	Directors	Companies associated to directors	Total
	Kshs 000	Kshs 000	Kshs 000
(b) Deposits – Group and bank			
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	**417,225**	**1,437,350**	**1,854,575**
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	**480,908**	**1,398,840**	**1,879,749**

Key management compensation

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

	Group		Bank	
Short term benefits	2022	2021	2022	2021
	Kshs 000	Kshs 000	Kshs 000	Kshs 000
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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Notes

ANNUAL GENERAL MEETING

FAMILY BANK LIMITED

NOTICE IS HEREBY GIVEN THAT the Sixteenth (16th) Annual General Meeting ('AGM') of Family Bank Limited will be held via electronic communication on Wednesday 28th June 2023, at 9:00 a.m. to conduct the following business:

Ordinary Business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if thought fit, adopt the Integrated Report, the Audited Financial Statements for the year ended 31st December 2022, together with the Chairman's, Directors' and Auditors' reports thereon.
4. To approve the payment of a first and final dividend of Kshs. 0.62 per share, subject to withholding tax where applicable, on the issued and paid up capital of the Company and payable to shareholders registered as at 28th June 2023. To facilitate the payment of the Dividend, the register of members will be closed on 28th June 2023.
5. Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:
   - 5.1. Mr. Lazarus Muema retires by rotation and being eligible, offers himself for re-election as a director of the Company.
   - 5.2. Mr. David Ichoho, having been appointed to fill a casual vacancy, retires by rotation and being eligible, offers himself for re-election as a director of the Company.
6. To consider and approve the Directors' remuneration for the year ending 31st Dec 2022.
7. To re-appoint PricewaterhouseCoopers (PwC) as Auditors of the Company in accordance with Sections 721 and 724 of the Companies Act 2015, and to authorise the Directors to fix their remuneration.
8. To consider any other business for which due notice has been received.

By Order of the Board

Eric K. Murai
Company Secretary
6th June 2023

NOTES

1. The Company has convened and will be conducting the AGM by electronic means as provided for under Article 57A of the Company's Articles of Association.

2. Shareholders wishing to participate in the meeting should register for the AGM by doing the following:

a) Dialling the USSD code *483*809# for Safaricom, Airtel and Telkom mobile telephone networks and following the various prompts regarding the registration; or

b) Send an email request to be registered to familybankagm@image.co.ke

c) Shareholders with email addresses will receive a registration link via email through which they can use to register

In order to complete the registration process, shareholders will need to have their ID/Passport Numbers which were used to purchase their shares and/or their Share Account Number at hand. For assistance, shareholders should dial the following helpline number: (+254) 709 170 034 from 9:00 a.m. to 5:00 p.m. from Monday to Friday.

3. Registration for the AGM opens on Wednesday 7th June 2023 at 9.00a.m. and will close on Tuesday 27th June 2023 at 12.00p.m. Shareholders will not be able to register after 27th June 2023 at 12.00p.m.

4. In accordance with Section 283 (2) of the Companies Act, the following documents may be viewed on the Company's website: www.familybank.co.ke (i) a copy of this Notice and the proxy form; (ii.) the Company's audited financial statements for the year ended 31st December 2022.

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

5. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:

(i) sending their written questions by email to familybankagm@image.co.ke; or

(ii) submitting questions by dialling the USSD Code above and following the prompts: or

(iii) to the extent possible, physically delivering their written questions with a return physical address or email address to the registered office of the Company at 8th Floor, Family Bank Towers, Muindi Mbingu Street, or to Image Registrars Limited offices at 5th floor, Absa Towers (formerly Barclays Plaza), Loita Street; or sending their written questions with a return physical address or email address by registered post to the Company's address at P.O. Box 74145-00200 Nairobi. Shareholders must provide their full details (full names, ID/Passport Number/Share Account Number) when submitting their questions and clarifications.

All questions and clarification must reach the Company on or before Tuesday 27th June 2023 at 12:00p.m. Following receipt of the questions and clarifications, the directors of the Company shall provide written responses to the questions received to the return physical, postal or email address provided by the Shareholder no later than 12 hours before the start of the general meeting. A full list of all questions received, and the answers thereto will be published on the Company's website not later than 12 hours before the start of the general meeting.

6. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf. A proxy need not be a member of the Company but if not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone. A proxy form is attached to this Notice and is available on the Company's website via this link: www.familybank.co.ke/company-profile/investor-relations. Physical copies of the proxy form are also available at the following address: Image Registrars Limited offices, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to info@image.co.ke or delivered to Image Registrars Limited, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 27th June 2023 at 11.00a.m. Any person appointed as a proxy should submit his/her mobile telephone number to the Company no later than 27th June 2023 at 11.00a.m. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than 27th June 2023 at 11.00a.m. to allow time to address any issues.

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

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

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

Family Bank
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www.familybank.co.ke
www.facebook.com/familybankkenya
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PROXY FORM

Shareholder's Name: .... ID / Reg No. : ....

Share Account No. ....

The Company Secretary
Family Bank Limited
8th Floor, Family Bank Towers.
P. O. Box 74145-00200
Nairobi

PROXY FORM

I/We .... of P. O. Box ....
being a shareholder(s) of Family Bank Limited, appoint

Name: ....
Postal Address: ....
ID No.: ....
Mobile Number: ....
Email Address: ....

and failing him / her, the chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Bank to be held on Wednesday 28th June 2023 at 9:00 am via electronic communication and / or at any adjournment thereof. This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he/she deems fit.

As witnessed by my/our hand(s) this ....day of 2023

Signed.. Signed..

ID No.. ID No..

NOTES

1. A member who is unable to attend the virtual meeting is entitled to appoint a proxy to access and vote on his or her behalf.

2. In the case of a corporate body, the proxy must be under its common seal or under the hand of an officer or attorney duly authorized in writing.

3. Joint account holders must state their joint names and sign according to their signing mandates.

4. A completed form of proxy should be emailed to familybankagm@image.co.ke and copy to shares@familybank.co.ke or delivered to Image registrars at 5th floor, ABSA Towers (Formerly Barclays Plaza), Loita Street or Shares Registry Office at Family Bank Towers, 8th Floor, so as to be received not later than Tuesday 27hJune 2023 at 11:00AM. When nominating a proxy the ID/Passport No, email and/or mobile number details of the proxy must be submitted to facilitate registration.

5. Any proxy registration that is rejected will be communicated to the Shareholders concerned within 12 hours to allow time to address any issues.

6. Shareholders wishing to raise any questions for the AGM may do so prior to the AGM by sending an email to familybankagm@image.co.ke or shares@familybank.co.ke (During the registration open period).

7. A proxy need not be a member.

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Email: info@familybank.co.ke | Website: www.familybank.co.ke