SIDIAN BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Contents

Directors	**Executive**	
	Chege Thumbi	Chief Executive Officer
	Non-executive	
	Dr. James Mworia	Chairman
	Mary-Ann Musangi	
	Kimanthi Mutua	
	Tom Kariuki	Independent
	Catherine Mturi-Wairi	Independent
	Mbaabu Muchiri	Independent
Board Committees		
Audit and Risk Committee	Catherine Mturi-Wairi	Chairperson
	Kimanthi Mutua	
	Tom Kariuki	
	Mary-Ann Musangi	
	Mbaabu Muchiri	
Asset and Liability Committee	Kimanthi Mutua	Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Mary-Ann Musangi	
	Mbaabu Muchiri	
Credit Committee	Tom Kariuki	Chairperson
	Kimanthi Mutua	
	Chege Thumbi	
	Mbaabu Muchiri	
Nominations and Governance Committee	Mary-Ann Musangi	Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Tom Kariuki	

Company Secretary

Sarah Chepsoi
Certified Secretary
7th Floor, K-Rep Centre
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi

Registered Office

7th Floor, K-Rep Centre
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi

Auditor

PricewaterhouseCoopers LLP
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P O Box 43963 - 00100
Nairobi

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

Principal activities

The Group is engaged in the business of banking and provision of related services. The Company is licensed under the Banking Act. The principal activity of the subsidiary is to provide bancassurance services and licensed by the Insurance Regulatory Authority.

Business review

A detailed business review is included on pages 3 to 9 of this report.

Results and dividend

The Group profit for the year of Shs 395,367,000 (2021: Shs 486,227,000) has been added to retained earnings. The directors do not recommend payment of a dividend for the year (2021: Nil).

Directors

The directors who held office during the year and to the date of this report are shown on page 1.

Disclosures to the auditor

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

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

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

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan 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.

Approval of financial statements

The financial statements set out on pages 17 to 101 were approved at a meeting of the directors held on 3 March 2023.

By order of the Board

Sarah Chepsoi
Company Secretary

The Group recorded a net profit of Shs 395,367,000 in 2022. The profit is largely attributed to increased lending which grew the interest income on loans by 14% as well as increased interest income on government securities investments. The Group's operating expenses were also well contained with a minimal increase of 7% in the year driven by cost management measures.

Net interest income increased by 16% attributed to higher interest income on loans and advances as well as government securities. Interest expense on customer deposits and borrowings was higher in the period attributed to increased customer deposits and long-term borrowings respectively. Non-funded income was driven by lending fees, treasury trading income trade finance business and bancassurance income which the Group continues to focus on. Net loans and advances to customers increased by 6% as the Bank continued lending in the year supported by its high liquidity and SMEs focus.

Deposits from customers were at Shs 25,424 292,000 as at year-end driven by increased transactions by the Bank's customers as well as continued deposit mobilization through the forty-three-branch network and digital channels. The Bank has invested in various digital channels i.e. mobile banking, mobile lending, internet banking, on-line bid bonds platform, Sidian express, etc. all of which have enabled its customers to access various banking services without having to visit branches.

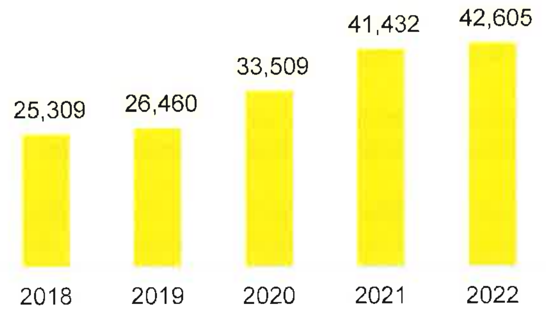
The Group's financial performance over the last five years is detailed below;

	2018	2019	2020	2021	2022
BALANCE SHEET	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets					
Cash and bank balances	2,140,313	3,306,661	2,716,175	2,640,019	1,803,713
Deposits with other banks	3,986,393	1,743,226	1,903,322	178,659	209,155
Investment securities	3,629,951	3,235,533	6,922,977	13,019,751	13,589,656
Loans and advances to customers	13,134,315	14,526,066	18,997,464	22,595,909	23,901,980
Other assets	2,417,952	3,648,583	2,968,579	2,997,664	3,100,965
Total assets	25,308,924	26,460,069	33,508,517	41,432,002	42,605,469
Liabilities and equity					
Deposits from banks	3,523,597	745,245	1,002,693	1,734,461	3,310,809
Deposits from customers	16,941,908	17,197,726	22,739,618	25,830,431	25,424,292
Borrowings	413,450	2,882,177	4,086,255	7,618,251	7,269,790
Other liabilities	353,661	1,554,683	1,580,938	1,483,619	1,436,912
Equity	4,076,308	4,080,238	4,099,013	4,765,240	5,163,666
Total liabilities and equity	25,308,924	26,460,069	33,508,517	41,432,002	42,605,469
INCOME STATEMENT					
Interest income	2,118,405	2,133,370	2,487,156	3,542,704	4,518,443
Interest expense	(1,055,421)	(1,199,462)	(1,628,527)	(2,009,583)	(2,742,687)
Net interest income	1,062,984	933,908	858,629	1,533,121	1,775,756
Non- interest income	1,066,242	1,430,084	1,310,515	1,613,561	1,480,623
Total income	2,129,226	2,363,992	2,169,144	3,146,682	3,256,379
Allowance for expected credit losses	(762,941)	(383,131)	(169,271)	(445,589)	(577,013)
Operating expenses	(1,903,647)	(1,881,216)	(1,927,738)	(1,979,237)	(2,117,379)
Profit/(loss) before income tax	(537,362)	99,644	72,134	721,856	561,987
Income tax (expense)/credit	159,479	12,844	(53,359)	(235,629)	(166,620)
Profit/(loss) for the year	(377,883)	112,488	18,775	486,227	395,367

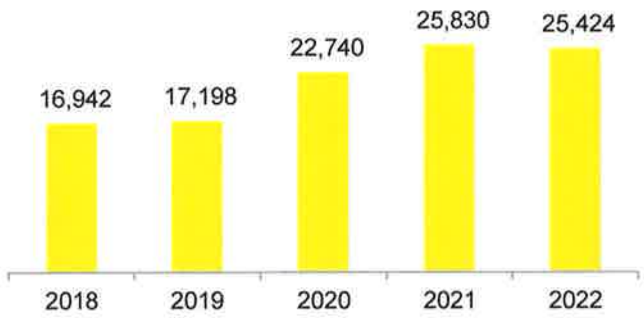
Overall performance (continued)

	2018	2019	2020	2021	2022
PERFORMANCE RATIOS					
Net Interest margin	6.1%	4.8%	3.8%	5.1%	5.0%
Cost to income ratio	89%	80%	89%	63%	65%
Net operating income to assets	9.5%	9.1%	7.2%	8.4%	7.7%
Return on equity	-10.0%	2.8%	0.5%	11.0%	8.0%
Return on assets	-1.7%	0.4%	0.1%	1.3%	0.9%
Non-performing-loans (NPL) ratio	20.1%	20.1%	11.5%	11.9%	11.7%

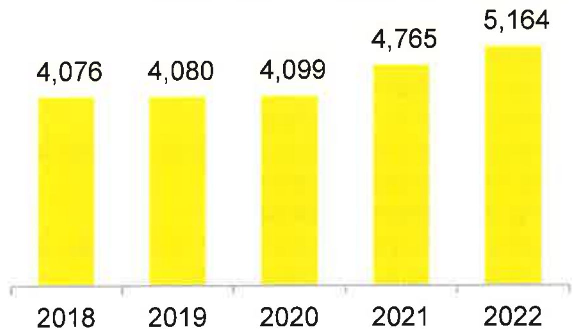
Total assets (Shs million)



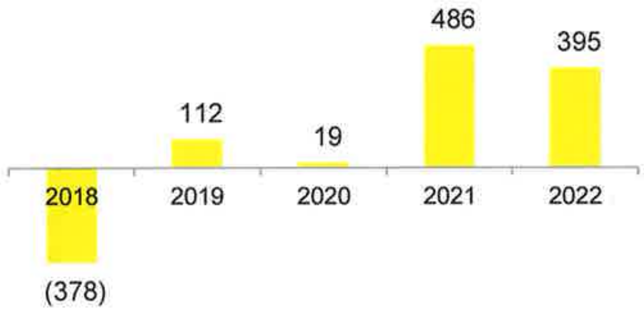
Customer deposits (Shs million)



Shareholders' equity (Shs million)



Net profit / (loss) (Shs million)



Capital and liquidity

The Bank's capital and liquidity ratios are strong with sufficient headroom above the regulatory requirements. The Bank is thus well positioned to support future growth as per the strategy in the medium term and beyond.

	2018	2019	2020	2021	2022
CAPITAL RATIOS					
Core capital to risk weighted assets (min: 10.5%)	15.7%	14.5%	12.0%	11.8%	12.7%
Total capital to risk weighted assets (min: 14.5%)	15.7%	19.0%	17.2%	18.8%	20.3%
LIQUIDITY RATIOS					
Net loans and advances to deposits	78%	84%	84%	87%	94%
Liquidity ratio (min: 20%)	35%	42%	45%	53%	43%

Principal risks and mitigation measures

Description	Example	Mitigation Measures
Credit risk		
Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed.	• Default on credit facilities	The Group has established sound credit risk management practices that include; • Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements. • Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Credit Committee or the Board as appropriate. • Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process. • Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any sector. • Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews. • Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL. • Well-defined policies, procedures and limits for management of credit risk including: - Exposure to individual borrowers; - Maximum exposure to related parties; - Maximum exposure to individual economic sectors; and - Acceptable limits on specific products. • Stress testing and scenario analysis. • Regular audits of Credit Department processes are undertaken by Internal Audit Department.
Liquidity risk		
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.	• Inability to pay customer deposits / withdrawals	The Group has established the following liquidity risk management practices that include; • Maintaining a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the institution as a whole. • All liquidity policies and procedures are subject to review and approval by an Assets and Liabilities Committee. • Perform and monitor outcomes of the liquidity structure of assets, liabilities and commitments so that cash flows are matched to ensure that all funding obligations are met when due. Mismatch of assets and liabilities according to their maturity profiles are controlled in line with allowable risk levels. • CASA: FD appetite limits are in place and are monitored at the Assets Liability Committee meetings.

Market risk		
Market risk is the risk that the value of on and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.	• Interest rate risk • Foreign exchange risk • Equity Risk	The Group applies the following controls to manage its market risk exposures: • Primary Limits – This is set at the level of reported Earnings at Risk (EaR) and Economic Value-at-Risk (VaR). This limit considers the likely change in the amount of Net Profit Income or average monthly income given a particular scenario (secondary limits are volume limits for maturities and tradable instruments). • Strict Adherence to Regulatory Limits e.g. Net Open Position Limit • Internal Compliance monitoring of; Dealers' limits, Intraday Position limits, Overnight Position limit, Foreign Currency Placement lines (with foreign counterparties), and FX Interbank Settlement limits. • Stop loss: These are decision points that prompt remedial actions when a breach of internal limits occurs. Management Action Trigger considers actual cumulative profit or loss as well as potential losses. • Stress testing and scenario analysis. • Holding of foreign currency short positions.
Systemic risk		
Systemic risk is the risk that an event at one banking institution in the industry could trigger severe instability or collapse of the entire industry or economy. This is the risk of business cycles adversely affecting growth and returns.	• Loss of deposits • Loss of customer confidence • Reduction in capital ratios • Increased credit risk • Balance sheet risks	The Group applies the following controls to manage its systemic risk exposures: • Robust stress testing and analysis of early warning indicators and contingency planning and monitoring. • Review and monitoring of concentration risk of the balance sheet. • Portfolio diversifications for both deposits and financings. • Business re-engineering • Stress testing and scenario analysis for economic trends and global factors including forward looking. • Customer Town halls and engagements

Information and Communication Technology Risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	• Natural threats and calamities such as floods, earthquakes, hurricanes, and fires. • Human threats such as network attacks, virus infection, and data entry errors. • Epidemics, diseases and • Pandemics.	The Group has in place the following risk mitigation measures: • Governance and Strategy: Formulated an ICT strategy that aligns with the overall business plan of the bank and ICT assessment plan. • Infrastructure Management where; ✓ Acquired and put in place network perimeter defense tools (e.g. border router and firewall), anti-virus, and anti-malware tools; ✓ Review and testing of security controls of internally developed software and adopted UAT and Quality Assurance and approved by a joint committee on change management; and ✓ Implementation of processes that mitigate vulnerabilities identified as part of the secure development of systems and applications. • Access Management programs in use are: ✓ Monitoring and control of elevated privileges (e.g. administrator privileges); ✓ Performance of regular user access reviews for all systems and applications based on the risk to the application or system in compliance with least privilege; ✓ Access controls include password complexity and limits on password attempts and reuse; and ✓ Controls to prevent unauthorized escalation of user privileges. • Third-Party Management risk mitigations in place: ✓ Put in place formal contracts that address relevant security and privacy requirements for all third parties that process, store, or transmit confidential data or provide critical services; and ✓ Conduct risk-based due diligence on prospective third parties before contracts are signed • Business Continuity and Incident Resilience Planning ✓ Document Incident management plans to respond to cyber Incident; ✓ Document a formal backup and recovery plan for all critical business lines; ✓ Incorporate Cyber incidents into disaster recovery, business continuity, and crisis management plans; and • Test the BCP and incident plan at least annually.

Cyber security risk		
Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems.	• Cyber security attack	The Group applies the following controls to manage its cyber risk exposures: • Cyber security and IT security policy and framework. • Staff training and sensitization programs in place. • Customer sensitization programs in place • Monitoring of IT systems for the network, users and devices, anti-virus and anti-malware software, put in place. • Data protection and privacy, fraud and investigations control mechanisms in place • Vulnerability and penetration testing of security controls to avert penetration and to constantly test and monitor IT systems.
Compliance & AML risk		
This is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards. It is the risk arising from violations or non-compliance with laws and regulations.	• Regulatory non-compliance • Internal non-compliance • AML violations • Failure to comply with new guidelines including the Banking Sector Charter requirements.	The Group applies the following controls to manage its Compliance and AML risk exposures: • Adequate internal control measures in place to review the compliance operating environment of the business • Adequate staffing with appropriate level of qualification and regular training • AML Systems for transaction monitoring customer transactions and reporting in place. • Independent review of the bank's AML & compliance status periodically and reporting to the Board Audit and Risk Committee. • Staff training and attestation programs in place . • Set risk appetite limits of zero tolerance to governance and compliance risk
Operational risk		
This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	• Process risk • People risk • Outsourcing and 3rd Party risk • Risk arising from external events • Systems Risk	The Group has in place control measures for management of operational risk including; • Close monitoring of adherence to assigned risk limits or thresholds; • Internal Loss Data Collection and Analysis; • Staff risk training programs; • Operational risk report filing and trend analysis; • Dual control processes and segregation of duties; • Appropriate staffing level and vetting; and • Risk assessments of branches, processes and products; and • Timely reconciliations.
Strategic risk		
Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	• Adverse business decisions, example loss making initiatives • Systemic risk • Uncontrollable business factors that hinder achievement of business objectives	• The Group has a strategic plan in place with medium and long-term priorities in line with corporate mission and goals. • Adequate planning of capital and funding needs to support the bank's operations and ability to meet its strategic goals and objectives. • Human resources management and development succession planning.

Long term funding

During the year, the Bank secured long term funding from different financiers as below which will support the Bank's growth and transition to a tier II bank;

FCY Borrowings	2018 USD '000	2019 USD '000	2020 USD '000	2021 USD'000	2022 USD'000	Total USD '000
FMO	-	10,000	10,000	-	-	20,000
IFU	-	12,000	-	-	-	12,000
Oiko Credit	-	-	-	9,000	-	9,000
Triodos Investment Management	-		-	10,000	-	10,000
EMF Microfinance Fund	-	-	-	10,000	-	10,000
						61,000

LCY Borrowings	2018 KES '000	2019 KES '000	2020 KES '000	2021 KES '000	2022 KES '000	Total KES '000
Oiko Credit	-	300,000	-	-	-	300,000
East Africa Development Bank (EADB)	57,890	170,003	237,720	128,180	63,245	657,038
Aqua for All	-	-	25,139	-	-	25,139
Water Equity	-	-	-	564,000	-	564,000
						1,546,177

2023 Focus

The Bank will focus on mobilizing stable customer deposits utilizing its large branch network, innovative partnerships and products as well as through its digital channels. The Bank will seek to increase customer transactions on its digital channels, enhance its efficiency and increase profitability. Further, the Bank will continue lending to its customers as it deploys the long-term funds raised, increase its customer numbers, as well as growing the various streams of non-funded income. Trade Finance continues to be a key driver of the Bank's growth in the medium term as the Bank positions itself as the 'Go To Bank' for Trade Finance solutions. Various initiatives will also be implemented to enhance staff motivation and productivity as the Bank moves towards its goal of becoming a tier II bank.

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. The Group Board of Directors is mandated to control and direct the activities, affairs, operations and property of the Group with a view to maximizing shareholders value, increasing profitability and guaranteeing sustainable business.

This statement sets out the key components of the Group's Corporate Governance Framework. Corporate Governance is central to the Group's approach to safeguard shareholders and stakeholders' interest and at the same time enhance shareholders value. The overall control over the activities, affairs, operations, business and property of the Group is vested in the Group's Board of Directors ("BOD"). The BOD notes that maintenance and consistent practice and application of good Corporate Governance practices is key to the long-term success of the Group.

The Board is committed and confirms full compliance of all the relevant laws including the Central Bank of Kenya (CBK) Guidelines on Corporate Governance (CBK/PG/02) issued under Section 33(4) of the Banking Act, guidelines set by itself in accordance with international best practices. The Group has adopted the highest standards of integrity and ethics in all undertakings. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to ensure performance of the Group's enhanced targets and regulatory compliance.

Corporate Governance continues to be a key priority of the Board in exercise of its mandate as it accounts and reports to all stakeholders of the Group about the procedures, systems and controls they have put in place to safeguard their interests in line with the highest standards of Corporate Governance.

The Group ensures that there is adequate accountability in its actions and openness in relation with stakeholders, shareholders and the general public.

Board of Directors

The Board consists of seven members chaired by Dr. James Mworia. It consists of six non-executive directors and one executive director who is the Bank's Chief Executive Officer. The Board collectively pools together vast experience in various relevant fields inter alia, investment management, banking, finance and marketing. With this, it is able to effectively ensure that the Group establishes and maintains internal controls that drive profitability and sustainable growth.

Authority and Delegation

The Board delegates its authority to Board Committees, which are Board Audit and Risk Committee, Board Asset and Liability Committee, Board Credit Committee, and Board Nominations and Governance Committee, which meet quarterly or whenever a need arises. The Board Credit Committee further acts as an operational committee that is vested with authority to review and approve customer credit requests within the Board limit. The authority for the day to day running of the Group is delegated to the Chief Executive Officer, who runs the Group together with the Executive Management Committee. The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. The Board Chair plays a crucial role in fostering constructive dialogue between shareholders, the Board and Management at the Annual General Meeting and other shareholder meetings.

Corporate Planning

The Board is responsible for formulating the strategic plan of the Group. The Board has been instrumental in formulating sustainable policies and strategies to ensure that the Group stays profitable. The Board together with the Senior Management review on an annual basis the Group's strategy where projections and targets are assessed and amended as circumstances dictate.

Board Effectiveness

The Board of Directors comprises of six non-executive directors and one executive director, the Chief Executive Officer. This arrangement initiates the significance of impartiality in matters of Corporate Governance.

It also ensures that the Board is free from undue influence on matters affecting the day to day running of the Group. Generally, the conduct of the Board in particular the non-executive directors, are regulated by the Bank's and Subsidiary Memorandum and Articles of Association, Corporate Governance Policy and the Board Charter. Management also ensures that the Board is well informed on the operations of the Group at all times. The annual Board evaluation exercise for the year 2022 was conducted internally in February 2023.

Executive Management Committee

The implementation of the Group's strategic decisions is handled by the Executive Management Committee which is chaired by the Chief Executive Officer. The committee meets once a month or whenever a need arises to review the Bank's performance, control overall direction of business and make strategic decisions. The Committee is composed of departmental heads of Business, Human Resources, Finance and Strategy, Credit, Treasury, Legal and Company Secretarial, Information and Communication Technology (ICT) and Operations. The Heads of Enterprise Risk and Audit are invited to give an overview of their independent oversight.

Board Committees

The Board has established Board committees to assist in discharging its duties and responsibilities. The Board committees have formally determined Charters stipulating the terms of reference, which define their role, function, reporting procedures and scope of authority. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of Annual Report and Financial Statements in full compliance with the requirements of the Kenyan Companies Act, 2015 and the International Financial Reporting Standards (IFRSs).

The agenda of each committee is guided by the Board Charter together and the plan set at the beginning of the year.

Board Audit and Risk Committee

This committee consists of non-executive directors who check on the quality of financial reporting, selection of internal and external auditing functions, advise the board on best practices, provide oversight on risk management and compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies together with the Bank's laid down policies and procedures.

The committee further defines the scope of risk management work, ensures that adequate risk policies and strategies are in place to identify, monitor and effectively mitigate the various risk issues the Bank is exposed to in the day to day activities. On a yearly basis, the committee reviews the proposed work plans for the internal audit function. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame. The Chair of this committee is a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Asset and Liability Committee (ALCO)

The ALCO committee is set up to derive the most appropriate strategy for the Bank by optimizing returns while prudently managing and observing the assets and liabilities. It also considers the potential consequences of interest rate movements, market risk, liquidity constraints, and foreign exchange exposure and capital adequacy. The committee ensures compliance with the Bank's strategies on statutory requirements on liquidity, foreign exchange exposure and cash ratio.

Nominations and Governance Committee

The Nominations and Governance committee ensures that the Board fulfills its legal, ethical and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of Board activities and evaluation of Board members' performance.

Credit Committee

The Credit committee oversees the establishing and implementing of the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy and effective follow up of all credit-related matters. The committee is also responsible for formulating the credit policies of the Bank.

Board Meetings

The Board scheduled six board meetings during the year. The Board meetings attendance for the year ended 31 December 2022 is as below;

	Mar'	May	Jul	Sep'	Nov'	Meeting Attendance
Meetings held						
Dr. James Mworia	1	1	2	1	1	6/6
Mary-Ann Musangi	1	1	2	1	1	6/6
Kimanthi Mutua	1	1	2	1	1	6/6
Tom Kariuki	1	1	2	1	1	6/6
Catherine Mturi-Wairi	1	1	2	1	1	6/6
Chege Thumbi	1	1	2	1	1	6/6
Mbaabu Muchiri*	1	1	2	1	1	6/6

Compliance

The Group operates within the requirements of the Banking Act, among other Acts governing the various lines of businesses it is engaged in, and adopts certain universally accepted principles in the areas of human rights, sustainable banking and labour standards in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Shareholding

The Bank's shareholders at 31 December 2022 were as follows:

		Number of shares	Value of shares Shs '000'	Percentage Shareholding
1	Bakki Holdco Limited	3,569,478	1,784,739	81.18%
2	K-Rep Group Limited	501,430	250,715	11.40%
3	KWA Multi-Purpose Co-Operative Limited	143,376	71,688	3.26%
4	Centum Investment Company Plc	98,999	49,500	2.25%
5	Kimanthi Mutua	21,040	10,520	0.48%
6	Sarah Godana	15,495	7,748	0.35%
7	Kabiru Kinyanjui	12,222	6,111	0.28%
8	Mwenda Thiribi	10,316	5,158	0.23%
9	Francis Kihiko	8,871	4,436	0.20%
10	Aleke Dondo	6,495	3,248	0.15%
11	Judith Bahemuka	4,995	2,498	0.11%
12	Anthony Wainaina	3,785	1,893	0.09%
13	Francis Munyao Kinyumu	500	250	0.01%
	Total	**4,397,002**	**2,198,501**	**100.00%**

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

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

(i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) Selecting suitable accounting policies and then applying them consistently; and

(iii) Making judgements and accounting estimates that are reasonable in the circumstances.

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

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

Approved by the Board of Directors on 3 March 2023 and signed on its behalf by:

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Chege Thumbi	Dr. James Mworia
Chief Executive Officer	Chairman

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sidian Bank Limited (the "Bank") and its subsidiary (together, the "Group") set out on pages 17 to 101, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Bank statement of profit or loss and other comprehensive income, Bank statement of financial position at 31 December 2022, the Bank statement of changes in equity and Bank statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

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

Other information

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED (CONTINUED)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED (CONTINUED)

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

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

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

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on page 2 is consistent with the financial statements.

Brian Ngunjiri

CPA Brian Ngunjiri, Practising certificate No. 2451
Engagement partner responsible for the audit

For and behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

28 March **2023**

Consolidated statement of profit or loss and other comprehensive income

	Notes	2022 Shs'000	2021 Shs'000
Interest income	5	4,518,443	3,542,704
Interest expense	6	(2,742,687)	(2,009,583)
Net interest income		1,775,756	1,533,121
Fee and commission income	7	1,066,053	1,303,694
Fee and commission expense	7	(4,363)	(16,876)
Net fee and commission income		1,061,690	1,286,818
Net trading income	8	396,896	299,057
Allowance for expected credit losses	9	(577,013)	(445,589)
Other operating income	10	22,037	27,686
Net operating income		2,679,366	2,701,093
Operating expenses	11	(2,117,379)	(1,979,237)
Profit before income tax		561,987	721,856
Income tax expense	13	(166,620)	(235,629)
Profit for the year		395,367	486,227
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain/ (loss) on revaluation of freehold land and building	31	-	-
Deferred income tax on revaluation of freehold land and building	31	-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income		395,367	486,227

Bank statement of profit or loss and other comprehensive income

	Notes	2022 Shs'000	2021 Shs'000
Interest income	5	4,517,505	3,542,704
Interest expense	6	(2,742,687)	(2,009,583)
Net interest income		1,774,818	1,533,121
Fee and commission income	7	958,587	1,203,900
Fee and commission expense	7	(4,202)	(15,812)
Net fee and commission income		954,385	1,188,088
Net trading Income	8	396,896	299,057
Allowance for expected credit losses	9	(574,980)	(446,709)
Other income	10	72,037	77,686
Net operating income		2,623,156	2,651,243
Operating expenses	11	(2,086,840)	(1,951,427)
Profit before income tax		536,316	699,816
Income tax expense	13	(143,897)	(213,919)
Profit for the year		392,419	485,897
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain/(loss) on revaluation of freehold land and building	31	-	-
Deferred income tax on revaluation of freehold land and building	31	-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income		392,419	485,897

Consolidated statement of financial position

	Notes	2022 Shs'000	2021 Shs'000
Assets			
Cash and balances with the Central Bank of Kenya	15	1,803,713	2,640,019
Financial assets at fair value through profit or loss	16	-	2,703,136
Deposits to banks	17	209,155	178,659
Investment securities	18	13,589,656	10,316,615
Loans and advances to customers	19	23,901,980	22,595,909
Other assets and prepayments	20	1,279,952	1,130,201
Current income tax	13	110,410	55,466
Property and equipment	21	553,717	366,742
Right-of-use assets	22	624,548	748,915
Intangible assets	23	168,782	205,983
Deferred income tax	24	363,556	490,357
Total assets		42,605,469	41,432,002
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	146,595	151,975
Deposits from banks	25	3,310,809	1,734,461
Deposits from customers	26	25,424,292	25,830,431
Other liabilities and accrued expenses	27	519,045	401,878
Borrowings	28	7,269,790	7,618,251
Lease liabilities	29	771,272	929,766
Total liabilities		37,441,803	36,666,762
Equity			
Share capital	30	2,198,501	2,195,956
Share premium	30	1,277,355	1,276,841
Regulatory reserve	31	638,113	588,439
Revaluation reserve	31	50,034	50,034
Retained earnings		999,663	653,970
Total equity		5,163,666	4,765,240
Total liabilities and equity		42,605,469	41,432,002

The financial statements on pages 17 to 101 were approved by the Board of Directors on 3 March 2023 and were signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr. James Mworia
Chairman

Bank statement of financial position

	Notes	2022 Shs'000	2021 Shs'000
Assets			
Cash and balances with the Central Bank of Kenya	15	1,803,713	2,640,019
Financial assets at fair value through profit or loss	16	-	2,703,136
Deposits to banks	17	209,155	178,659
Investment securities	18	13,579,530	10,316,615
Investment in subsidiary	35	1,000	1,000
Loans and advances to customers	19	23,901,980	22,595,909
Other assets and prepayments	20	1,275,878	1,114,501
Current income tax	13	105,711	49,656
Property and equipment	21	553,151	366,515
Right-of-use assets	22	624,548	748,915
Intangible assets	23	168,486	204,892
Deferred income tax	24	362,390	490,307
Total assets		42,585,542	41,410,124
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	146,595	151,975
Deposits from banks	25	3,310,809	1,734,461
Deposits from customers	26	25,445,385	25,841,812
Other liabilities and accrued expenses	27	499,884	387,530
Borrowings	28	7,269,790	7,618,251
Lease liabilities	29	771,272	929,766
Total liabilities		37,443,735	36,663,795
Equity			
Share capital	30	2,198,501	2,195,956
Share premium	30	1,277,355	1,276,841
Regulatory reserve	31	638,113	588,439
Revaluation reserve	31	50,034	50,034
Retained earnings		977,804	635,059
Total equity		5,141,807	4,746,329
Total liabilities and equity		42,585,542	41,410,124

The financial statements on pages 17 to 101 were approved by the Board of Directors on 3 March 2023 and were signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr. James Mworia
Chairman

Consolidated statement of changes in equity

	Notes	Share capital Shs'000	Share premium Shs'000	Regulatory reserve Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2021							
At start of year		2,046,198	1,246,599	293,385	50,034	462,797	4,099,013
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	486,227	486,227
Transactions with owners, recorded directly in equity:							
Rights issue		149,758	30,242	-	-	-	180,000
Transfer of reserves	31	-	-	295,054	-	(295,054)	-
At end of year		2,195,956	1,276,841	588,439	50,034	653,970	4,765,240
Year ended 31 December 2022							
At start of year		2,195,956	1,276,841	588,439	50,034	653,970	4,765,240
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	395,367	395,367
Transactions with owners, recorded directly in equity:							
New shares issue	30	2,545	514	-	-	-	3,059
Transfer of reserves	31	-	-	49,674	-	(49,674)	-
At end of year		2,198,501	1,277,355	638,113	50,034	999,663	5,163,666

Bank statement of changes in equity

	Notes	Share capital	Share premium	Regulatory reserve	Revaluation reserve	Retained earnings	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 December 2021							
At start of year		2,046,198	1,246,599	293,385	50,034	444,216	4,080,432
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	485,897	485,897
Transactions with owners, recorded directly in equity							
Rights issue		149,758	30,242	-	-	-	180,000
Transfer of reserves	31	-	-	295,054	-	(295,054)	-
At end of year		2,195,956	1,276,841	588,439	50,034	635,059	4,746,329
Year ended 31 December 2022							
At start of year		2,195,956	1,276,841	588,439	50,034	635,059	4,746,329
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	392,419	392,419
Transactions with owners, recorded directly in equity							
New shares issue	30	2,545	514	-	-	-	3,059
Transfer of reserves	31	-	-	49,674	-	(49,674)	-
At end of year		2,198,501	1,277,355	638,113	50,034	977,804	5,141,807

Consolidated statement of cash flows

	Notes	2022 Shs'000	2021 Shs'000
Cash flows from operating activities			
Cash generated from operations	32	2,925,645	865,269
Income tax paid	13	(94,763)	(90,342)
Net cash flows from operating activities		2,830,882	774,927
Cash flows from investing activities			
Purchase of investment securities		(3,273,041)	(15,195,367)
Proceeds from sale of investment securities		2,703,136	9,526,438
Purchase of property and equipment	21	(264,210)	(78,061)
Purchase of intangible assets	23	(34,658)	(26,395)
Proceeds from sale of property and equipment		613	20
Net cash flows from investing activities		(868,160)	(5,773,365)
Cash flows from financing activities			
Proceeds from borrowings	28	63,425	3,932,334
Repayment of borrowings	28	(1,541,961)	(790,546)
Principal payments for lease liabilities	29	(259,145)	(296,264)
Rights issue- Additional share capital		3,059	180,000
Net cash flows from financing activities		(1,734,622)	3,025,524
Net decrease in cash and cash equivalents		228,100	(1,972,914)
Cash and cash equivalents at start of year	32	1,374,603	3,347,517
Cash and cash equivalents at end of year	32	1,602,703	1,374,603

Bank statement of cash flows

	Notes	2022 Shs'000	2021 Shs'000
Cash flows from operating activities			
Cash generated from operations	32	2,892,283	840,867
Income tax paid	13	(72,035)	(66,107)
Net cash flows from operating activities		2,820,248	774,760
Cash flows from investing activities			
Purchase of investment securities		(3,262,915)	(15,195,367)
Proceeds from sale of investment securities		2,703,136	9,526,438
Purchase of property and equipment	21	(263,702)	(77,894)
Purchase of intangible assets	23	(34,658)	(26,395)
Proceeds from sale of property and equipment		613	20
Net cash flows from investing activities		(857,526)	(5,773,198)
Cash flows from financing activities			
Proceeds from borrowings	28	63,425	3,932,334
Repayment of borrowings	28	(1,541,961)	(790,546)
Principal payments for lease liabilities	29	(259,145)	(296,264)
Rights issue- Additional share capital		3,059	180,000
Net cash flows from financing activities		(1,734,622)	3,025,524
Net decrease in cash and cash equivalents		228,100	(1,972,914)
Cash and cash equivalents at start of year	32	1,374,603	3,347,517
Cash and cash equivalents at end of year	32	1,602,703	1,374,603

1 Corporate information

Sidian Bank Limited (the "Bank") and its subsidiary Sidian Bancassurance Intermediary Limited (formerly Sidian Insurance Agency Limited) (the "Subsidiary") are incorporated and domiciled in Kenya and operate in Kenya. The registered address of the Bank and its subsidiary is:

7th Floor, K-Rep Centre
Wood Avenue, Kilimani
P O Box 25363 – 00603
Nairobi.

The Bank is licensed under the Banking Act (Chapter 488).

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements 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. 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 and Bank use 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 and Bank 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Use of estimates

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

(iii) Changes in accounting policies and disclosures

a) New relevant standards, amendments and interpretations adopted by the Group

The following standards, amendments and interpretations are effective for the first time for annual reporting periods ending on 31 December 2022 and have been applied by the Group:

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:
- IFRS 9 *Financial Instruments* – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS *1 First-time Adoption of International Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 *Agriculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

b) *Standards, interpretations and amendments issued but not effective and have not been early adopted by the Group (continued)*

Title	Key requirements	Effective date
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2023 [deferred from 1 January 2022]
Definition of Accounting Estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

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

Title	Key requirements	Effective date
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2023 [deferred from 1 January 2022]
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures.* The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. ** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.	n/a **

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Changes in accounting policies and disclosures (continued)

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

Title	Key requirements	Effective date
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.	1January 2023

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

Monetary items denominated in foreign currency are translated at the closing rate at the reporting date.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified at fair value through profit or loss, are included in other comprehensive income.

(d) Sale and re-purchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to Central Bank of Kenya, due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased from Central Bank of Kenya under agreements to resell ('reverse repos') are disclosed separately as they are purchased and are not negotiable/discounted during their tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(e) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

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. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income and expense

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:

(a) 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

(b) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Measurement methods (continued)

Initial recognition and measurement

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

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

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

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

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

Financial assets

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL)
- Amortised cost.

Debt instruments

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

(i) the Group's business model for managing the asset; and
(ii) the contractual cash flow characteristics of the financial asset.

Based on these factors, the Group classifies its debt instruments into one of the following two 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, as measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest income" using the effective interest rate method.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

- Fair value through profit or loss: assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

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.

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.

(ii) 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 with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(iii) Modifications of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans and advances 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.

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

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

(iv) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(iv) Derecognition other than on a modification (continued)

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognized 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.

(ii) Financial Liabilities

The Group's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

(i) 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.

(ii) 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).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting of 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 offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Financial guarantee contracts and loan commitments

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

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

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

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

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(h) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Group is stated at historical cost less depreciation and at revalued amount for freehold land and buildings. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated on the straight-line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	40 years
Lease hold improvements	10 years
Furniture, fittings and equipment	8 years
IT & Office Equipment and Computer Software	5 years
Motor vehicles	4 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Group assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Group estimates the recoverable amount of the relevant assets. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'operating expenses' in profit or loss.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Intangible assets – software

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

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

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(j) Impairment of non – financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Employee benefits

Retirement benefit obligations

The Group and all its employees contribute to a defined contribution scheme and also to the National Social Security Fund, which is a defined contribution scheme. A defined contribution scheme is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contribution to the defined contribution scheme is charged to profit or loss in the year in which it falls due. The Group has no further obligations once the contribution is paid.

(l) Income tax

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Income tax (continued)

(i) Current income tax

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

(ii) Deferred income tax

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

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

(m) Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(n) Share capital

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

(o) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. 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 syndication fees are recognised as revenue when the syndication 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.

(p) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

Notes (continued)

2 Summary of significant accounting policies (continued)

(q) Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign currency exchange rate risks. Derivatives solely comprise currency forward exchange contracts.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition of gains or losses in the profit or loss will depend on the nature of the hedge relationship.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(r) Accounting for leases

The Group assesses whether a contract is or contains a lease based on the definition of a lease, as required by IFRS 16.

The Group as lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. Amounts due from lessees under leases are recorded as receivables at the amount of the Group's net investment in the leases. Income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

The Group leases many assets including property, motor vehicles and equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

The Group recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentives,
- Any initial direct costs incurred by the lessee
- Any cost to dismantle

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over period of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

- Fixed payments, less any lease incentives receivable;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments are not included in the initial measurement of the lease liability and are expensed.

Notes (continued)

2 Summary of significant accounting policies (continued)

(r) Accounting for leases (continued)

The Group as lessee (continued)

The lease payments are discounted using the Group's incremental borrowing rate. The incremental borrowing rate is determined as the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lease term determined by the Group comprises:

- Non-cancellable period of lease contracts,
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Group measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability,
- Reducing the carrying amount to reflect lease payments made, and
- Re-measuring the carrying amount to reflect any reassessment or lease modifications.

3 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period.

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.

(i) 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 behavior (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.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

(ii) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are calibrated and periodically reviewed by qualified management personnel independent of the area that created them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require the directors to make estimates. At 31 December 2019 there were no financial instruments measured at fair value using valuation techniques and level 3 inputs other than as described in 4(d) below.

(iii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

(iv) Income taxes

The Group is subject to income taxes in various jurisdictions. 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 deferred tax provisions in the period in which such determination is made.

4 Financial risk management

This section provides an overview of the Group's approach to risk management and a description of the nature and extent of risks. The Bank's activities expose it to a variety of financial risks. The Bank's overall risk management programme focuses on the volatility of financial markets and seeks to minimise possible adverse effects on the Bank's financial performance and optimize shareholder value by achieving an appropriate trade-off between risk and returns. Risk is an integral part of the banking business and the Group aims to. The Group incurs its major risk exposure from extending credit to customers through lending operations. In addition to credit risk, the Group is also exposed to other risks such as liquidity and market risk among other risks that are inherent in the product range, sector concentration and geographical coverage of the Group. The Bank has adopted an Enterprise Risk Management Framework which sets out the manner in which the Bank conducts its business in line with the Board approved Strategy, Risk Appetite, Risk Tolerance, Regulatory Guidelines and International Best Practices.

Notes (continued)

4 Financial risk management (continued)

Risk Management Structure

Key roles and responsibilities regarding risk management are summarized below;

Level	Role
Board of Directors	To define appropriate risk governance practices for its own work and have in place the means to ensure such risk management practices are approved Approving risk management policies, risk appetite statements and limits while ensuring that the senior management ensure that they are followed and periodically reviewed for improvement.
Board Audit and Risk Committee	To provide independent oversight of the Group's financial reporting and internal control system, ensure checks and balances within the Group are in place and to recommend appropriate remedial action. To ensure quality, integrity and reliability of the institution's risk management. To assist the board of directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. It is accountable to the Board of directors.
Board ALCO Committee	To provide independent oversight of the Group's market risks, asset liability risks, liquidity, investment, concentration risks, and capital assessments and requirements. To assist the board of directors in the discharge of its duties relating to market risks and related limits, appetite thresholds and associated risks, and capital requirements in terms of management, assurance and reporting. It is accountable to the Board of directors.
Board Management Credit Committee	To assist the board of directors in reviewing and overseeing the overall lending of the Group. It is accountable to the Board of directors.
Board Nominations and Governance Committee	Oversight, assessment, management and mitigation of risks brought about by legal. ethics and governance in the Group. It is accountable to the Board of directors.
Management ALCO Committee	Recommends to Board ALCO committee on assessment, management and mitigation of liquidity, capital and market risks in the Group. It implements Board ALCO committee decisions.
Management Credit Committee	To assist the board credit committee in reviewing and overseeing the overall lending of the Group. It implements Board Credit committee decisions.
Management Committee	Oversees execution of the strategy of the Group and provides leadership and decision-making abilities in implementation of the mission and vision of the Group. It implements Board policies and decisions and conduct bank business within the board approved limits, standards and norms, .
Internal Audit Department	Provide independent oversight of the Group's internal control system, ensure checks and balances within the Group are in place and to report and recommend appropriate remedial action to the Board Audit Risk Committee.

Notes (continued)

4 Financial risk management (continued)

Level	Role
Enterprise Risk Management (ERM) Department	To ensure quality, integrity and reliability of the Group's risk management and compliance framework. To report and recommend appropriate risk control and mitigation measures and assist the board audit risk committee in the discharge of its duties relating to of management, assurance and reporting of risks.

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Board on their activities. The Bank has in place a Board Charter, from which the Board draws its powers, roles and responsibilities. The role of the Board and Board Committees for risk management are further detailed in the Terms of Reference (TOR).

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group has implemented a 'three line of defence' model as follows Each of these three "lines" plays a distinct role within the Bank's wider risk governance framework.

- Line management is the first line of defense in risk management and control. The Department Heads in Business, HR, Credit, IT and Operations; own and manage risks and the related controls in their respective departments. Management is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with laws and regulations. Management should be involved in the activities and possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.
- Enterprise Risk Management (ERM) Department provides the second line of defense by monitoring these risks and controls, and reporting on the level of risk to the Board Audit & Risk Committee.
- Internal Audit is the third line of defense that provides independent and objective assurance to Management and the Board on the effectiveness of both the first and second lines in their management of risks and controls.

Notes (continued)

Financial risk management (continued)

4(a) Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to fulfil their obligations as they fall due. Credit risk arises mainly from loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single most significant risk for the Group's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and controls are centralized in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

The Credit Risk Management process of the Bank entails assessment of the credit risk profile of the borrower or counterparty based on an analysis of the borrower's or counterparty's financial position. All credit exposures, whether on or off-balance sheet are be assessed and the underlying credit risk identified, measured, approved and reported.

Sidian Bank credit risk management is governed within the credit policy and guidelines approved by the Board, including guidelines issued by regulators and applicable laws. This Credit Policy provides a framework under which the Bank conducts its credit risk management to achieve profitable growth and quality loan book. The Credit policy documents the Bank's credit standards and credit risk appetite with an objective to:

- Ensure good quality Credit risk portfolio that is profitable to the Bank.
- Provide a framework for sound credit processes of initiation, structuring, appraisal, approval, documentation, disbursement, monitoring, collections and recoveries.
- Offer benchmarks and consistency to all actors in the credit process within which acceptable credit risk will be taken.
- Ensure compliance with legal, regulatory requirements as well as tenets of good lending.

The Group controls 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 continuous basis and are subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by region are approved quarterly by the Board of Directors.

The loan book is monitored on a continuous basis. This enables early identification of adverse trends, weaknesses and deterioration and equips management with information required for corrective decision making. 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Credit risks are spread over a diversity of microfinance, personal and commercial customers. The exposure to any one borrower is further restricted by sub-limits covering exposures recognized and not recognized in the statement of financial position. Defined Roles and Responsibilities provides clarity, alignment, and expectations to all officers involved in the credit delivery chain and enable effective communications between the various levels.

Notes (continued)

4 Financial risk management (continued)

Credit risk (continued)

(i) Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the Group considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of defaults of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, the level of collateral for retail exposures, and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the credit officers to be fed into the final internal credit rating for each exposure. This allows for the considerations which may not be captured as part of the other data input into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for other types of portfolio held by the Group:

Debt Securities and Placements with Banks
For debt securities and placements with banks, external rating agency credit grades will be used. These published grades will be continuously monitored and updated. The PDs associated with each grade will be determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group has not yet established internal models for measurement of expected credit loss (ECL) on non-loan financial instruments such as investment securities, interbank balances and other financial assets. However, at 31 December 2021, the Group estimated the ECL for these financial assets using external data as proxy and concluded on the ECL to be recognised on these instruments.

(ii) Expected credit loss measurement

The Group applies 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Notes (continued)

4 Financial risk management (continued)

Credit risk (continued)

(ii) Expected credit loss measurement (continued)

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in addressing the requirement of the standard are as follows;

(a) Significant Increase in credit risk (SICR)

The Group's decision on whether expected credit losses are based on 12-month expected credit losses 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 made at each reporting date.

The Group considers a financial instruments to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The quantitative criteria is based on relative and not absolute changes in credit quality driven by 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 Group considers if there has been an increase in the customer's rating, the facility is deemed to have a significant increase in credit risk. The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. This 30 days past due simplification permits the use of delinquency or past due status to identify a significant increase in credit risk. In adherence to the standard, the Group shall at every reporting period assesses the loan portfolio individually for possible breach of the 30 days past due SICR criterion. Where there is a breach and the loan has not been transferred to stage 2, the Group shall rebut the 30 days rebuttable presumption based on availability of supportable and reasonable information to justify that credit quality has not deteriorated significantly since initial recognition.

The Group's quantitative credit grading, as compared to CBK's prudential guidelines, into five prudential guidelines categories as follows:

IFRS 9 credit staging	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 (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

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

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 following:

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. 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. Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations

4. Significant changes in the value of collateral which are expected to reduce the borrower's economic incentive to pay or otherwise affect the probability of default.

5. 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).

6. 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).

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

(b) Definition of default and credit-impaired assets

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

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

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent 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 (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

(b) Definition of default and credit-impaired assets (continued)

Quantitative criteria
The Group considers a facility that is more than 90 days past due.

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.

c) Measuring expected credit loss – inputs, assumptions and estimation techniques

The expected credit loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows;

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

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

The lifetime PD is developed by applying a maturity profile to the current 12 month 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 amortising 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 product type.

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 a quarterly basis.

d) Forward-looking information incorporated in the ECL models

The assessment of both SICR and the calculation of ECL incorporates 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 financial instrument.

Forecasts of the base economic scenario and the possible 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 a high degree of 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 analyzed 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.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(ii) Expected credit loss measurement (continued)

d) Forward-looking information incorporated in the ECL models (continued)

Economic variable assumptions

The most significant assumptions affecting the ECL allowance are as follows. The scenarios "base", "upside" and "downside" were used for all portfolios.

	All segments		
	Base	**Upside**	**Downside**
USD Exchange rate	124.7	134.6	114.7
Nominal GDP	7.8%	7.5%	8.1%
Interest rates (lending rates)	15.0%	16.5%	13.5%
Inflation	9.5%	9.3%	96.7%

The weightings assigned to each economic scenario at 1 January 2022 and 31 December 2022 were as follows:

	Base	**Upside**	**Downside**
Weightings	50%	30%	20%

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 on a quarterly basis.

Sensitivity analysis

Set out below are the changes to the ECL at 31 December 2022 that would result from reasonably possible changes in the Group's probability weightings from actual assumptions used in the Group's economic variable assumptions:

Impact of 10% increase/decrease in base case probability weighting

	Base	**Upside**	**Downside**	**ECL Change'000**
Weightings (+10%)	60%	40%	30%	44,100
Weightings (-10%)	40%	20%	10%	(44,100)

e) Grouping of instruments for losses measured on a collective basis

For expected credit losses 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. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure

Maximum exposure to credit risk before collateral held

Group	**Notes**	**2022 Shs'000**	**%**	**2021 Shs'000**	**%**
Items recognised in the statement of financial position:					
Balances with Central Bank of Kenya	15	949,077	1.9	1,836,869	3.6
Financial assets at fair value through profit or loss	16	-	-	2,703,136	5.4
Deposits with other banks	17	211,988	0.4	179,219	0.4
Investments at amortised cost	18	13,589,656	27.1	10,316,615	20.4
Loans and advances to customers	19	24,560,176	48.9	23,645,617	46.8
Other assets	20	1,232,488	2.6	1,012,940	1.9
		40,543,385	80.9	39,694,396	78.5
Items not recognised in the statement of financial position:					
Acceptances and letters of credit	34	1,001,159	2.0	621,182	1.2
Guarantees	34	8,591,213	17.1	10,259,672	20.3
		50,135,757	100	50,575,250	100.0

Bank					
Items recognised in the statement of financial position:					
Balances with Central Bank of Kenya	15	949,077	1.9	1,836,869	3.6
Financial assets at fair value through profit or loss	16	-	-	2,703,136	5.3
Placements with other banks	17	211,988	0.4	179,219	0.4
Investments at amortised cost	18	13,579,530	27.1	10,316,615	20.4
Loans and advances to customers	19	24,560,176	48.9	23,645,617	46.8
Other assets	20	1,257,060	2.5	996,431	2.0
		40,557,831	80.9	39,677,887	78.5
Items not recognised in the statement of financial position:					
Acceptances and letters of credit	34	1,001,159	2.0	621,182	1.2
Guarantees	34	8,591,213	17.1	10,259,672	20.3
		50,150,203	100	50,558,741	100

The above tables represent a worst-case scenario of credit risk exposure to the Group and Bank at 31 December 2022 and 31 December 2021 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position before adjusting for expected credit loss.

Loans and advances to customers are secured by collateral in the form of charges over cash, land and building and/or plant and machinery or corporate guarantees. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held (continued)

Loans and advances (continued)

The breakdown of loans and advances is summarised below:

Group and Bank	**2022**			
	Stage 1 12-month ECL Shs' 000	**Stage 2 Lifetime ECL Shs' 000**	**Stage 3 Lifetime ECL Shs' 000**	**Total Shs' 000**
Individually impaired / non performing facilities				
Grade 3: Substandard	-	-	520,952	520,952
Grade 4: Doubtful	-	-	635,473	635,473
Grade 5: Loss	-	-	1,723,623	1,723,623
Gross amount	-	-	2,880,048	2,880,048
Credit impairment losses	-	-	458,572	458,572
Carrying amount	-	-	2,421,476	2,421,476
Collectively impaired				
Grade 1: Normal	18,977,951	-	-	18,977,951
Grade 2: Watch	-	2,702,177	-	2,702,177
Gross amount	18,977,951	2,702,177		21,680,128
Credit impairment losses	94,284	105,340	-	199,624
Carrying amount	18,883,667	2,596,837	-	21,480,504
Total carrying amount	18,883,667	2,596,837	2,421,476	23,901,980

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held (continued)

Loans and advances (continued)

The breakdown of loans and advances is summarised below:

Group and Bank	**2021**			
	Stage 1 12 month ECL Shs' 000	**Stage 2 Lifetime ECL Shs' 000**	**Stage 3 Lifetime ECL Shs' 000**	**Total Shs' 000**
Individually impaired / non performing facilities				
Grade 3: Substandard	-	-	440,664	440,664
Grade 4: Doubtful	-	-	708,421	708,421
Grade 5: Loss	-	-	1,670,877	1,670,877
Gross amount	-	-	2,819,962	2,819,962
Credit impairment losses	-	-	793,440	793,440
Carrying amount	-	-	2,026,522	2,026,522
Collectively impaired				
Grade 1: Normal	18,455,347	-	-	18,455,347
Grade 2: Watch	-	2,370,308	-	2,370,308
Gross amount	18,455,347	2,370,308		20,825,655
Credit impairment losses	157,398	98,870	-	256,268
Carrying amount	18,297,949	2,271,438	-	20,569,387
Total carrying amount	18,297,949	2,271,438	2,026,522	22,595,909

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

e) Credit risk exposure (continued)

Maximum exposure to credit risk before collateral held (continued)

Other financial assets – financial instruments subject to impairment

The other financial assets mainly relate to government securities and balances held with Central Bank and other financial institutions that are highly rated and therefore considered low risk. None of these were past due. The summarized information on the financial instrument is tabulated below:

Group	2022 Shs '000	Stage	ECL Shs '000	2021 Shs '000	Stage	ECL Shs '000
Balances with Central bank	949,077	1	-	1,836,869	1	-
Deposits with other banks	209,155	1	2,833	178,659	1	560
Investment securities	13,589,656	1	-	10,316,615	1	-
Other receivables	617,162	1	15,784	493,129	1	48,399
	15,365,050		18,617	12,825,272		48,959

Bank	2022 Shs '000	Stage	ECL Shs '000	2021 Shs '000	Stage	ECL Shs '000
Balances with Central bank	949,077	1	-	1,836,869	1	-
Deposits with other banks	209,155	1	2,833	178,659	1	560
Investment securities	13,579,530	1	-	10,316,615	1	-
Other receivables	501,447	1	15,784	493,129	1	47,376
	15,239,209		18,617	12,825,272		47,936

Other financial assets – financial instruments not subject to impairment

	Group and Bank	
	2022 Shs '000	2021 Shs '000
Financial assets at fair value through profit or loss	-	2,703,136

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

f) Collateral and other credit enhancements

The Group 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 Group's procedures and policies. The main types of collateral taken are:

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the period.

Valuation of collateral
The Group 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 of collateral are performed between 3 to 5 year intervals.

Financial effect of collateral
At 31 December 2022, 62% (2021: 75%) of the impaired loans (net of suspended interest) were covered by collateral.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Individually assessed impaired loans and advances:		
Micro loans	1,114,849	859,429
SME loans	1,765,199	1,955,023
	2,880,048	2,819,962
Fair value of collateral held	1,777,942	2,112,203

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

f) Collateral and other credit enhancements (continued)

Lending limits

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

f) Impairment and provisioning policies

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance in the year due to these factors:

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
At 1 January 2022	157,398	98,870	793,440	1,049,708
Net staging transfers	(127,359)	(8,632)	135,991	-
New financial assets originated or purchased	61,271	18,145	40,185	119,601
Financial assets derecognized	46,068	20,112	421,376	487,556
Net charge to profit or loss in the year	(20,020)	29,625	597,552	607,157
Interest on stage 3 loans	-	-	(182,061)	(182,061)
Write-offs	(43,094)	(23,155)	(750,359)	(816,608)
At 31 December 2022	94,284	105,340	458,572	658,196

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
At 1 January 2021	304,876	85,015	713,709	1,103,600
Net staging transfers	40,953	(27,904)	(13,049)	-
New financial assets originated or purchased	49,558	13,786	24,893	88,237
Net charge to profit or loss in the year	90,511	(14,118)	11,844	88,237
Other movements with no P&L impact:				
Financial assets derecognized	(237,989)	27,973	503,170	293,154
Write-offs	-	-	(435,283)	(435,283)
At 31 December 2021	157,398	98,870	793,440	1,049,708

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

f) Impairment and provisioning policies (continued)

The following table below shows the movement in gross carrying amount of loans and advances to help explain the changes in the loss allowance for the same portfolio:

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
At 1 January 2022	18,455,347	2,370,308	2,819,962	23,645,617
Net staging transfers	(323,848)	(696,385)	1,020,233	-
Financial assets de-recognized	(3,131,000)	(76,397)	(252,891)	(3,460,288)
New financial assets originated	4,751,982	330,120	109,353	5,191,455
Write-offs	-	-	(816,608)	(816,608)
At December 2022	19,752,481	1,927,646	2,880,049	24,560,176

Group and Bank	Stage 1 12-month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
At 1 January 2021	17,242,054	521,521	2,337,489	20,101,064
Net staging transfers	(2,464,335)	1,578,934	885,401	-
Financial assets derecognised	(773,338)	90,264	(23,535)	(706,609)
New financial assets originated	4,450,966	179,589	55,890	4,686,445
Write-offs	-	-	(435,283)	(435,283)
At December 2021	18,455,347	2,370,308	2,819,962	23,645,617

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

(g) Concentrations of risks of financial assets with credit exposure

To avoid excessive concentration in any one of several industrial sectors and, by extension, the overall safety of the Group and Bank, the lending portfolio is monitored and managed at all times. Equally, care is taken to avoid over-exposure to any one borrower. There are restrictions to the maximum exposure permitted with respect to any one name based on capital and these restrictions which are strictly adhered to, are laid down by regulation. Any changes made to the portfolio management plan are subject to the approval of the Board of Directors. The economic sector risk concentrations within the customer loans and advances portfolios at the end of the year were as follows:

	Group and Bank	
	2022	**2021**
	%	**%**
Agriculture	1.9	2.8
Manufacturing	6.9	2.4
Building and construction	8.2	11.3
Mining and Quarrying	0.3	0.2
Energy and water	2.6	3.7
Trade	46.7	37.3
Tourism, restaurant and Hotels	8.3	3.2
Transport and Communication	7.8	5.3
Real Estate	5.7	3.6
Financial Services	3.5	7.0
Personal Household	8.1	23.2
	100.0	100

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was Shs 816 million (2021: Shs 435 million). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets at 31 December 2022 was Shs 1,681 million (2021: Shs 3,515 million).

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in the Group's Treasury, includes:

- Day-to-day funding, 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 Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

The Management Asset and Liability Committee's (ALCO) role in liquidity is to manage the day to day treasury operations, ascertain adequacy of funds to meet the bank's obligations, advises on pricing of assets and liabilities, prepares cash flow projections to ensure the bank's liquidity is within set limits by CBK, monitors maturities of assets and liabilities and finally advises on placements and liquidations as appropriate. The Group also ensures the CBK cash and liquidity ratios are maintained.

The tables below represent cash flows payable by the Group under non-derivative financial assets and liabilities by remaining periods to maturity at the reporting date.

Notes (continued)

4 Financial risk management (continued)
b) Liquidity risk (continued)

Group

Expected maturity dates	**On demand Shs'000**	**1 - 3 months Shs'000**	**3 – 12 months Shs'000**	**1 - 5 years Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
2022						
Financial assets						
Cash and bank balances	1,803,713	-	-	-	-	1,803,713
Deposits with other banks	73,851	49,199	86,105	-	-	209,155
Investment securities at amortised cost	-	449,482	185,821	4,658,476	22,865,285	28,159,064
Investment securities at FVPL	-	-	-	-	-	-
Loans and advances to customers	-	3,312,750	2,686,286	22,573,730	3,453,880	32,026,646
Other assets	1,279,952	-	-	-	-	1,279,952
Total financial assets	3,157,516	3,811,431	2,958,212	27,232,206	26,319,165	63,478,530
Financial liabilities						
Deposits due to banks	-	3,310,809	-	-	-	3,310,809
Deposits from customers	10,535,615	11,799,512	3,377,763	192,488	-	25,905,378
Other liabilities and accrued expenses	517,432	-	-	-	-	517,432
Borrowings	740,867	153,945	1,332,948	6,578,482	677,928	9,484,170
Total financial liabilities	11,793,914	15,264,266	4,710,711	6,770,970	677,928	39,217,789
Liquidity gap	(8,636,398)	(11,452,835)	(1,752,499)	20,461,236	25,641,237	24,260,741
Financial guarantees	-	2,050,103	4,910,975	2,609,294	22,000	9,592,372
Foreign currency swaps	-	45,900	100,695	-	-	146,595

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Group

Expected maturity dates	**On demand** Shs'000	**1 - 3 months** Shs'000	**3 – 12 months** Shs'000	**1 - 5 years** Shs'000	**Over 5 years** Shs'000	**Total** Shs'000
2021						
Financial assets						
Cash and bank balances	2,640,019	-	-	-	-	2,640,019
Deposits with other banks	70,884	-	107,775	-	-	178,659
Investment securities at amortized cost	-	-	19,296	2,237,331	8,059,988	10,316,615
Investment securities at FVPL	-	2,703,136	-	-	-	2,703,136
Loans and advances to customers	-	3,492,455	1,980,005	15,068,937	2,054,512	22,595,909
Other assets	1,130,201	-	-	-	-	1,130,201
Total financial assets	3,841,104	6,195,591	2,107,076	17,306,268	10,114,500	39,564,539
Financial liabilities						
Deposits due to banks	-	1,734,461	-	-	-	1,734,461
Deposits from customers	8,415,517	14,810,702	2,382,955	221,257	-	25,830,431
Other liabilities and accrued expenses	401,878	-	-	-	-	401,878
Borrowings	-	274,498	708,434	5,407,144	1,228,175	7,618,251
Total financial liabilities	8,817,395	16,819,661	3,091,389	5,628,401	1,228,175	35,585,021
Liquidity gap	(4,976,291)	(10,624,070)	(984,313)	11,677,867	8,886,325	3,979,518
Financial guarantees	-	3,057,409	5,233,893	2,580,552	9,000	10,880,854
Foreign currency swaps	-	7,650	144,325	-	-	151,975

Notes (continued)

4 Financial risk management (continued)

Bank **Expected maturity dates** **2022**	**On demand** **Shs'000**	**1 - 3 months** **Shs'000**	**3 – 12 Months** **Shs'000**	**1 - 5 years** **Shs'000**	**Over 5 years** **Shs'000**	**Total** **Shs'000**
Financial assets						
Cash and bank balances	1,803,713	-	-	-	-	1,803,713
Deposits with other banks	73,851	49,199	86,104	-	-	209,155
Investment securities at amortized cost	-	449,482	185,821	4,658,476	22,855,159	28,148,938
Investment securities at FVPL	-	-	-	-	-	-
Loans and advances to customers	-	3,312,750	2,686,286	22,573,730	3,453,880	32,026,646
Other assets	1,275,878	-	-	-	-	1,275,878
Total financial assets	3,153,442	3,811,431	2,958,212	27,232,206	26,309,039	63,464,330
Financial liabilities						
Deposits due to banks	-	3,310,809	-	-	-	3,310,809
Deposits from customers	10,556,708	11,799,512	3,377,763	192,488	-	25,926,471
Other liabilities and accrued expenses	498,250	-	-	-	-	498,250
Borrowings	740,867	153,945	1,332,948	6,578,482	677,928	9,484,170
Total financial liabilities	11,795,825	15,264,266	4,710,711	6,770,970	677,928	39,219,700
Liquidity gap	(8,642,383)	(11,452,835)	(1,752,499)	20,461,236	25,631,111	24,244,630
Financial guarantees	-	2,050,103	4,910,975	2,609,294	22,000	9,592,372
Foreign currency swaps	-	45,900	100,695	-	-	146,595

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Bank

Expected maturity dates	**On demand Shs'000**	**1 - 3 months Shs'000**	**3 – 12 months Shs'000**	**1 - 5 years Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
2021						
Financial assets						
Cash and bank balances	2,640,019	-	-	-	-	2,640,019
Deposits with other banks	70,884	-	107,775	-	-	178,659
Investment securities at amortized cost	-	-	19,296	2,237,331	8,059,988	10,316,615
Investment securities at FVPL	-	2,703,136	-	-	-	2,703,136
Loans and advances to customers	-	3,492,455	1,980,005	15,068,937	2,054,512	22,595,909
Other assets	1,114,501	-	-	-	-	1,114,501
Total financial assets	3,825,404	6,195,591	2,107,076	17,306,268	10,114,500	39,548,839
Financial liabilities						
Deposits due to banks	-	1,734,461	-	-	-	1,734,461
Deposits from customers	8,426,899	14,810,701	2,382,955	221,257	-	25,841,812
Other liabilities and accrued expenses	387,529	-	-	-	-	387,529
Borrowings	-	274,498	708,434	5,407,144	1,228,175	7,618,251
Total financial liabilities	8,814,428	16,819,660	3,091,389	5,628,401	1,228,175	35,582,053
Liquidity gap	(4,989,024)	(10,624,069)	(984,313)	11,677,867	8,886,325	3,966,786
Financial guarantees	-	3,057,409	5,233,893	2,580,552	9,000	10,880,854
Foreign currency swaps	-	7,650	144,325	-	-	151,975

Notes (continued)

4 Financial risk management (continued)

c) Market risk

The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the bank's mission.

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Group's income or capital. A principal part of the Group's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. The Group aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital. The Group monitors foreign exposure positions, ensures there is adequate foreign currency to meet obligations as well as takes corrective action if the exposure exceeds the set limits.

For simulation modelling, the Group uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital. The overall responsibility for managing market risk rests with the Board Asset and Liability Committee (ALCO). The ERM department is responsible for the development of detailed risk management policies subject to review and approval by ALCO.

The major market risk sensitivity analysis measurements techniques used to measure and control market risks are outlined below:

i) Foreign exchange 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 aggregate for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign exchange risk at 31 December 2022. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Foreign exchange risk (continued)

Group and Bank

At 31 December 2022	**USD Shs'000**	**EURO Shs'000**	**GBP Shs'000**	**Other Shs'000**	**Total Shs'000**
Financial assets					
Cash and bank balances	101,610	80,914	29	548	183,101
Deposits with other banks	147,089	58,907	8,141	331	214,467
Loans and advances	2,961,141	1	-	-	2,961,141
Investment securities at amortized cost	713,395	-	-	-	713,395
Total financial Assets	3,923,235	139,822	8,170	879	4,072,104
Financial liabilities					
Customers deposits	927,756	136,419	5,626	-	1,069,801
Borrowings	6,149,797	-	-	-	6,149,797
Total financial Liabilities	7,077,553	136,419	5,626	-	7,219,598
Net exposure	(3,154,318)	3,401	2,544	879	(3,147,494)

Group and Bank

At 31 December 2021	**USD Shs'000**	**EURO Shs'000**	**GBP Shs'000**	**Other Shs'000**	**Total Shs'000**
Financial assets					
Cash and bank balances	1,037,406	60,724	7,747	111	1,105,988
Deposits with other banks	161,752	12,330	1,270	188	175,540
Loans and advances	2,525,830	19,964	9	-	2,545,803
Total financial Assets	3,724,988	93,018	9,026	299	3,827,331
Financial liabilities					
Customers deposits	1,246,572	95,862	1,308	-	1,343,742
Borrowings	6,439,041	-	-	-	6,439,041
Total financial liabilities	7,685,613	95,862	1,308	-	7,782,783
Net exposure	(3,960,625)	(2,844)	7,718	299	(3,955,452)

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Foreign exchange risk (continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to functional currency of the Group, with all other variables held constant:

	Group and Bank	
	2022	**2021**
Shs/ US dollar	**Shs'000**	**Shs'000**
Effect on profit before income tax of a +/-5% change in exchange rates	(157,716)	(198,031)
Shs / Euro		
Effect on profit before income tax of a +/-5% change in exchange rates	170	(142)

i) Interest rate risk

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances are either pegged to the Group's base lending rate or Treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Group also invests in fixed and variable interest rate instruments issued by the Central Bank of Kenya. Interest rates on deposits from customers are negotiated between the Group and the customer. The Group has the discretion to change the rates in line with changes in market trends.

These measures minimize the Group's exposure to interest rate risk.

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 projections make other assumptions including that all positions run to maturity.

<u>Sensitivity analysis</u>

The following table presents the sensitivities of the assumed changes in interest rates on the Group's profit before income tax and for the year and equity.

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Effect on profit before income tax of a +/-2% change in interest rates	282	11,996
Effect on profit before income tax (%)	+/-0.04%	+/-2.13%

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount categorized by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that the financial assets maintain a constant rate of return from one year to the next. The bank bases its sensitivity analysis on the interest sensitivity gap.

Group 2022	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**3-12 months Shs'000**	**1-5 Years Shs'000**	**Over 5 years Shs'000**	**Non-interest bearing Shs'000**	**Carrying amount Shs'000**
Financial assets:							
Cash and bank balances	-	-	-	-	-	1,803,713	1,803,713
Deposits with other banks	-	18,375	-	-	-	190,779	209,155
Investment securities	-	439,028	90,281	3,648,039	9,412,308	-	13,589,656
Loans advances to customers	-	3,225,570	2,484,811	16,249,467	1,942,132	-	23,901,980
	-	**3,682,973**	**2,575,092**	**19,897,506**	**11,354,440**	**1,994,492**	**39,504,504**
Financial liabilities:							
Deposits due to banks	-	3,310,809	-	-	-	-	3,310,809
Deposits from customers	-	14,617,926	3,204,510	168,291	-	7,433,565	25,424,292
Borrowings	-	95,805	685,855	5,813,898	674,232	-	7,269,790
	-	18,024,540	3,890,365	5,982,189	674,232	7,433,565	36,004,891
Total interest repricing gap	-	(14,341,567)	(1,315,273)	13,915,317	10,680,208	(5,439,073)	3,499,613

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iii) Interest rate risk (continued)

Group 2021	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and bank balances	-	-	-	-	-	2,640,019	2,640,019
Deposits with other banks	-	-	107,775	-	-	70,884	178,659
Investment securities	-	-	19,296	2,237,331	8,059,988	-	10,316,615
Loans advances to customers	1,848,470	1,643,985	1,980,005	15,068,937	2,054,512	-	22,595,909
	1,848,470	1,643,985	2,107,076	17,306,268	10,114,500	2,710,903	35,731,202
Financial liabilities:							
Deposits due to banks	1,734,461	-	-	-	-	-	1,734,461
Deposits from customers	10,000,627	4,845,742	2,382,955	221,257	-	8,379,850	25,830,431
Borrowings	-	274,498	708,434	5,407,144	1,228,175	-	7,618,251
	11,735,088	5,120,240	3,091,389	5,628,401	1,228,175	8,379,850	35,183,143
Total interest repricing gap	(9,886,618)	(3,476,255)	(984,313)	11,677,867	8,886,325	(5,668,947)	548,059

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iv) Interest rate risk (continued)

Bank

2022	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and bank balances	-	-	-	-	-	1,803,713	1,803,713
Deposits with other banks	-	18,375	-	-	-	190,779	209,155
Investments securities	-	439,028	90,281	3,648,039	9,402,182	-	13,579,530
Loans advances to customers	-	3,225,570	2,484,811	16,249,467	1,942,132	-	23,901,980
	-	3,682,973	2,575,092	19,897,506	11,344,314	1,994,492	39,494,378
Financial liabilities:							
Deposits due to banks	-	3,310,809	-	-	-	-	3,310,809
Deposits from customers	-	14,639,019	3,204,510	168,291	-	7,433,565	25,445,385
Borrowings	-	95,805	685,855	5,813,898	674,232	-	7,269,790
	-	18,045,633	3,890,365	5,982,188	674,232	7,433,565	36,025,984
Total interest repricing gap	-	(14,362,660)	(1,315,273)	13,915,318	10,670,082	(5,439,073)	3,468,394

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

v) Interest rate risk (continued)

Bank 2021	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**3-12 months Shs'000**	**1-5 Years Shs'000**	**Over 5 years Shs'000**	**Non-interest bearing Shs'000**	**Carrying amount Shs'000**
Financial assets:							
Cash and bank balances	-	-	-	-	-	2,640,019	2,640,019
Deposits with other banks	-	-	107,775	-	-	70,884	178,659
Investments securities	-	-	19,296	2,237,331	8,059,988	-	10,316,615
Loans advances to customers	1,848,470	1,643,985	1,980,005	15,068,937	2,054,512	-	22,595,909
	1,848,470	1,643,985	2,107,076	17,306,268	10,114,500	2,710,903	35,731,202
Financial liabilities:							
Deposits due to banks	1,734,461	-	-	-	-	-	1,734,461
Deposits from customers	10,012,000	4,845,742	2,382,955	221,257	-	8,379,858	25,841,812
Borrowings	-	274,498	708,434	5,407,144	1,228,175	-	7,618,251
	11,746,461	5,120,240	3,091,389	5,628,401	1,228,175	8,379,858	35,194,524
Total interest repricing gap	(9,897,991)	(3,476,255)	(984,313)	11,677,867	8,886,325	(5,668,955)	536,678

Notes (continued)

4 Financial risk management (continued)

d) Fair value of financial assets and liabilities

The Group's and Bank's fair value of the investment securities at amortized cost listed at NSE at 31 December 2022 is estimated at Shs 12,907,004,000 (2021: Shs 9,964,784,000) compared to their carrying value of Shs 13,589,656,000 (2021: Shs 10,316,615,000). The Held for Trading investment securities are carried at fair value in the Bank's books. The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels are 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 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).

Group and Bank **At 31 December 2022**	**Level 1** **Shs'000**	**Level 2** **Shs'000**	**Level 3** **Shs'000**	**Totals** **Shs'000**
Financial assets at fair value through profit or loss	-	-	-	-
Freehold land and buildings	-	-	123,625	123,625
	-	-	123,625	123,625
At 31 December 2021				
Financial assets at fair value through profit or loss	2,703,136	-	-	2,703,136
Freehold land and buildings	-	-	125,750	125,750
	2,703,136	-	125,750	2,828,886

Notes (continued)

4 Environmental, climate related and Social risks management

e) The Bank revised it's Environmental and Social policy to incorporate mitigation of climate-related risks as per CBK's Guidance on Climate-Related Risk Management issued in October 2021. The framework establishes the environmental, climate-related and social (EC&S) management policy and procedures, the structure as well as the responsibilities for the EC&S management in the Bank. Sidian Bank in offering various products and services to various business segments is exposed to all sectors including those that may affect the environment and / or the society. It is in this regard that Sidian Bank undertakes to understand the specific environmental, climate-related and social risks associated with the activities we undertake and the industries/clients we finance.

The objectives of this framework are as follows:

- To develop an effective environmental and social management system in compliance with relevant environmental and social regulations, best practices and commitments to our partners.
- To outline Sidian Bank's commitment to reduce negative impacts on the environment and society.
- To guide on how to integrate the climate-related risks into overall risk management in order to identify and mitigate the risks arising from climate change. Management should consider EC&S risks when formulating and implementing business strategy, governance and risk management frameworks.
- To provide clear guidance as to the responsibilities of each staff with regards to environmental, climate-related and social risks management.

Sidian Bank subscribes to the KBA SFI principles which inform financiers on how to optimize the balancing of their business goals with the economy's future priorities and socio-environmental concerns. The Guiding Principles are in line with international best practice and consistent with the financial sector's environmental and social risk management aspirations. They are meant to guide banks in the implementation and adoption of sustainability practices and the incorporation of the same into their day to day operations.

f) Management of capital

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya. The ratios measure capital adequacy by comparing the bank's eligible capital with its assets in the statement of financial position, commitments not recognized in the statement of financial position, market and other risk positions at a weighted amount to reflect their relative risk.

The Bank manages its capital to ensure that it is a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Bank consists of debt which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Bank's Management ALCO reviews the bank's capital structure on an on-going basis. As part of this review, the Committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Committee to the Board ALCO committee, the Bank will balance its overall capital structure.

Notes (continued)

4 Financial risk management (continued)

f) Management of capital (continued)

The Bank has 3 main capital objectives:

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

Capital adequacy and use of regulatory capital are monitored regularly 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 a bank to maintain at all times:

- A minimum level of core capital of Shs 1 billion.
- A core capital of not less than 8.0% of total deposit liabilities.
- A core capital of not less than 10.5% of risk weighted assets plus risk weighted assets not recognized in the statement of financial position.
- A total capital of not less than 14.5% of risk-weighted assets plus risk-weighted items not recognized in the statement of financial position.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level prescribed by with the Central Bank which considers the risk profile of the Bank.

The Bank's total regulatory capital is divided into two tiers:

Tier 1 capital (core capital): Share capital, share premium, plus retained earnings.

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

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighted according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied.

Notes (continued)

4 Financial risk management (continued)

f) Management of capital (continued)

	2022 Shs'000	2021 Shs'000
Tier 1 capital		
Share capital	2,198,501	2,195,956
Share premium	1,277,355	1,276,841
Retained earnings	977,802	705,809
Less: Deferred tax asset	-	(79,521)
	4,453,658	4,099,085
Tier 2 capital		
Revaluation reserve	12,508	12,508
Subordinated debt	2,229,730	2,014,168
Regulatory reserve	439,443	435,930
Total regulatory capital	7,132,438	6,561,691
Risk weighted assets	35,155,429	34,874,418
Total deposit liabilities	25,445,385	25,841,812
Core capital/ total deposits liabilities (Minimum: 8.0%)	17.5%	15.9%
Core capital/total risk weighted assets (Minimum: 10.5%)	12.7%	11.8%
Total capital/ total risk weighted assets (Minimum: 14.5%)	20.3%	18.8%

The Bank was compliant with the capital adequacy ratios throughout the year.

5 Interest income

	Group 2022 Shs'000	Group 2021 Shs'000	Bank 2022 Shs'000	Bank 2021 Shs'000
Loans and advances to customers	3,024,124	2,650,086	3,024,124	2,650,086
Financial assets at amortised cost	1,483,394	885,006	1,482,456	885,006
Deposits with other banks	10,925	7,612	10,925	7,612
	4,518,443	3,542,704	4,517,505	3,542,704
Portfolio analysis				
Interest on financial assets held at amortised cost	4,518,443	3,542,704	4,517,505	3,542,704

Notes (continued)

6 Interest expense

	Group and Bank 2022 Shs'000	Group and Bank 2021 Shs'000
Deposits from customers	1,467,047	1,251,701
Deposits from banks	615,944	377,357
Borrowings	573,086	280,385
Interest expense on lease liabilities (Note 29)	86,610	100,140
	2,742,687	2,009,583

7 Net fee and commission income

	Group 2022 Shs'000	Group 2021 Shs'000	Bank 2022 Shs'000	Bank 2021 Shs'000
Ledger fees and commissions	37,258	31,051	37,258	31,148
Credit fees and commissions	668,983	684,908	668,984	684,908
Transaction based fees income	252,345	487,844	252,345	487,844
Insurance premium commissions	107,467	99,891	-	-
Fee and commission income	1,066,053	1,303,694	958,587	1,203,900
Fee and commission expense	(4,363)	(16,876)	(4,202)	(15,812)
Net fee and commission income	1,061,690	1,286,818	954,385	1,188,088

8 Trading income

	Group and Bank 2022 Shs'000	Group and Bank 2021 Shs'000
Foreign exchange income	244,390	170,614
Debt securities income	152,506	128,443
	396,896	299,057

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the income statement.

Debt securities income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense.

Notes (continued)

9 Allowance for expected credit losses

	Group		Bank	
	2022	2021	2022	2021
Statement of profit or loss:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Charge for the year:				
- Loans and advances to customers (Note 19)	607,157	475,957	607,157	475,957
- Deposits with other banks (Note 17)	2,273	(13,327)	2,273	(13,327)
- Other assets and prepayments (Note 20)	2,335	11,864	-	12,984
- Recoveries	(34,752)	(28,905)	(34,450)	(28,905)
	577,013	445,589	574,980	446,709

10 Other income

Gain on disposal of property and equipment	613	14	613	14
Sundry income	21,424	27,672	21,424	27,672
Dividend income	-	-	50,000	50,000
	22,037	27,686	72,037	77,686

11 Operating expenses

Operating expenses include the following:

Employee benefits (Note 12)	1,013,610	935,024	991,865	916,914
Directors' remuneration (Note 35)	72,599	64,515	72,599	64,514
Auditor's remuneration	11,480	10,441	11,480	9,721
Depreciation of property and equipment (Note 21)	77,235	67,046	77,067	66,944
Depreciation of right of use asset (Note 22)	167,472	200,670	167,472	200,670
Amortisation of intangible assets (Note 23)	71,860	77,385	71,064	74,030
Other operating expenses	703,123	624,156	695,293	618,634
	2,117,379	1,979,237	2,086,840	1,951,427

Notes (continued)

12 Employee benefits

	Group 2022	2021	Bank 2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and allowances	833,115	770,401	814,309	755,797
Retirement benefit costs:				
- Defined contribution benefits scheme	53,422	48,589	52,284	47,949
- National Social Security Fund	1,195	1,163	1,172	1,145
Staff medical expenses	73,422	68,532	72,033	67,406
Staff welfare and training expenses	52,456	46,339	52,067	44,617
	1,013,610	935,024	991,865	916,914

The average number of employees during the year, by category were:	Group 2022	2021	Bank 2022	2021
Management	61	63	60	63
Supervisory	184	191	179	186
Clerical	256	241	252	239
	501	495	491	488

13 Income tax

a) Income statement

	Group 2022	2021	Bank 2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Current income tax charge	(51,992)	(100,540)	(28,166)	(78,578)
Deferred income tax charge (Note 24)	(126,801)	(135,089)	(127,917)	(135,341)
Prior year current income tax charge overstatement	12,173	-	12,186	-
	(166,620)	(235,629)	(143,897)	(213,919)

Reconciliation of tax expense to tax based on the profit before income tax:

	Group 2022	2021	Bank 2022	2021
Profit before income tax	561,987	721,856	536,316	699,816
Tax at the applicable rate of 30%	(168,597)	(216,557)	(160,895)	(209,945)
Expenses not deductible	(10,196)	(19,072)	4,812	(3,974)
Prior year current income tax charge overstatement	12,173	-	12,186	-
Tax charge for the year	(166,620)	(235,629)	(143,897)	(213,919)

Notes (continued)

13 Income tax (continued)

b) Statement of financial position	**Group 2022 Shs'000**	**Group 2021 Shs'000**	**Bank 2022 Shs'000**	**Bank 2021 Shs'000**
At start of year	55,466	65,664	49,656	62,127
Income tax expense for the year	(51,992)	(100,540)	(28,166)	(78,578)
Payments during the year	94,763	90,342	72,035	66,107
Prior year current income tax charge overstatement	12,173	-	12,186	-
At end of year	110,410	55,466	105,711	49,656

14 Earnings per share

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

Earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	Group 2022	**Group 2021**
Profit for purposes of basic and diluted earnings per share (in Shs'000)	395,367	486,227
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	4,397	4,392
Earnings per share - basic and diluted (Shs)	89.9	110.7

15 Cash and bank balances

	Group and Bank 2022 Shs '000	**Group and Bank 2021 Shs '000**
Cash in hand	854,636	803,149
Balances with Central Bank of Kenya (CBK)		
• Cash reserve ratio balance	765,922	1,336,860
• Other current accounts	183,155	500,010
	949,077	1,836,870
	1,803,713	2,640,019

Cash balances with the Central Bank of Kenya do not earn interest. They are available for use by the Bank and are not pledged as security. The cash reserve ratio with Central Bank of Kenya (CBK) is based on the value of deposits as adjusted for CBK requirements. At 31 December 2022, the cash reserve ratio requirement was 4.25% of eligible deposits (2021: 4.25%). The Bank is free to deviate from the 4.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 4.25%.

Notes (continued)

16 Financial assets and liabilities at fair value through profit or loss

	Group and Bank 2022 Shs'000	2021 Shs'000
Financial assets held for trading		
Government securities at fair value through profit or loss	-	2,703,136
Financial liabilities held for trading		
Derivative financial instruments	146,595	151,975

Derivatives financial instruments

The Bank trades in currency exchange forward contracts and currency swap contracts. The contracts are marked to market on daily basis.

Forward currency exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives premium at the start of the option period.

The notional amounts are the respective gross amounts underlying the contract at the reporting date.

	Group and Bank		
	Notional amount Shs'000	Assets Shs'000	Liabilities Shs'000
2022			
Currency swap contracts	4,070,880	-	146,595
2021			
Currency swap contracts	5,091,750	-	151,975

All the derivative financial instrument contracts were maturing within one year after the year end.

Notes (continued)

17 Deposits with other banks

	Group and Bank	
	2022	**2021**
	Shs 000	**Shs 000**
Maturing within 91 days	125,884	71,444
Maturing over 91 days	86,104	107,775
	211,988	179,219
Provision for expected credit losses	(2,833)	(560)
	209,155	178,659

The weighted average effective interest rate for deposits due from banking institutions at 31 December 2022 was 3.3% (2021: 1.6%).
The movement in the provision for expected credit losses for deposits with other banks is as follows:

	Group and Bank	
	2022	**2021**
	Shs '000	**Shs '000**
At start of year	560	13,887
Charge/(Credit) to profit or loss during the year	2,273	(13,327)
At end of year	2,833	560

18 Investment securities

	Group		Bank	
	2022	**2021**	**2022**	**2021**
	Shs 000	**Shs 000**	**Shs 000**	**Shs 000**
Investment securities at amortised cost				
Government of Kenya treasury bills and bonds:				
Maturing within 91 days	439,028	-	439,028	-
Maturing over 91 days	13,060,347	10,236,498	13,050,221	10,236,498
Corporate bonds:				
Maturing over 91 days	90,281	80,117	90,281	80,117
	13,589,656	10,316,615	13,579,530	10,316,615

The weighted average effective interest rate for treasury investments at 31 December 2022 was 12.5% (2021: 12.4%). At 31 December 2022, the Bank had pledged treasury bonds amounting to Shs 286 million (2021: Shs 286 million) to East Africa Development Bank (EADB) as collateral for borrowings.

Notes (continued)

19 Loans and advances to customers

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Term loans	22,238,714	21,354,845
Overdrafts	2,264,681	2,217,521
Credit cards	56,781	73,251
Gross loans and advances	24,560,176	23,645,617
Provisions for expected credit losses	(658,196)	(1,049,708)
Net loans and advances	23,901,980	22,595,909
Analysis of gross loans and advances by maturity		
Maturing within one year	6,313,819	5,472,459
Between one and five years	16,304,226	16,118,646
Over five years	1,942,131	2,054,512
	24,560,176	23,645,617

The movement in the provision for expected credit losses for loans and advances to customers is as follows:

	2022	2021
At start of year	1,049,708	1,103,600
Charge to profit or loss (Note 9)	607,157	475,957
Interest on stage 3 loans	(182,061)	(94,566)
Write - offs during the year	(816,608)	(435,283)
At end of year	658,196	1,049,708

The aggregate amount of non-performing advances was Shs 2,880,047,000 (2021: Shs 2,819,962,000) against which provisions of Shs 458,558,000 (2021: Shs 793,440,000) have been made leaving a net balance of Shs 2,421,489,000 (2021: Shs 2,026,522,000) which is included in the statement of financial position in the loans and advances line item. The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets. Loans and advances to customers are measured at amortised cost.

The weighted average effective interest rate on loans and advances at 31 December 2022 was 13.0% (2021: 12.4%).

Additional disclosures on impairments and provisions for credit losses are set out under Note 4 (a).

Notes (continued)

20 Other assets and prepayments

	Group		Bank	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Prepayments	63,248	165,660	34,602	165,446
Items in the course of collection	50,235	73,417	50,235	73,417
Due from subsidiary (Note 35)	-	-	24,572	1,298
Prepaid staff loan benefits	115,715	134,717	115,715	134,717
Mpesa balances receivable	698,759	475,024	698,759	475,024
Other receivables	367,779	329,782	367,779	311,975
Provision for expected credit losses	(15,784)	(48,399)	(15,784)	(47,376)
	1,279,952	1,130,201	1,275,878	1,114,501

The movement in the provision for expected credit losses on other receivables is as follows:

	Group		Bank	
	2022	2021	2022	2021
	Shs '000	Shs '000	Shs '000	Shs '000
At start of year	48,399	46,425	47,376	46,425
Charged to profit or loss (Note 9)	2,335	11,864	-	12,984
Write-off	(34,950)	(9,890)	(31,592)	(12,033)
At end of year	15,784	48,399	15,784	47,376

Notes (continued)

21 Property and equipment

Group	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Leasehold improvements Shs'000	Total Shs'000
Year ended 31 December 2022						
Cost or valuation						
At start of year	130,000	155,008	16,044	658,179	609,125	1,569,356
Additions	-	6,154	5,350	233,766	18,940	264,210
Disposals	-	-	(1,288)	(10,060)	-	(11,348)
At end of year	130,000	162,162	20,106	881,885	628,065	1,822,218
Depreciation						
At start of year	4,250	114,369	16,044	602,265	465,686	1,202,614
Charge for the year	2,125	12,043	725	33,503	28,839	77,235
Disposals	-	-	(1,288)	(10,060)	-	(11,348)
At end of year	6,375	126,412	15,481	625,708	494,525	1,268,501
Net carrying amount						
At end of year	123,625	35,750	4,625	256,177	133,540	553,717
Year ended 31 December 2021						
Cost or valuation						
At start of year	130,000	148,757	16,044	603,678	592,690	1,491,169
Additions	-	7,544	-	54,082	16,435	78,061
Reclass from intangible assets	-	-	-	419	-	419
Disposals	-	(293)	-	-	-	(293)
At end of year	130,000	156,008	16,044	658,179	609,125	1,569,356
Depreciation						
At start of year	2,125	103,104	14,382	578,572	437,672	1,135,855
Charge for the year	2,125	11,552	1,662	23,693	28,014	67,046
Disposals	-	(287)	-	-	-	(287)
At end of year	4,250	114,369	16,044	602,265	465,686	1,202,614
Net carrying amount						
At end of year	125,750	41,639	-	55,915	143,439	366,742

Notes (continued)

21 Property and equipment (continued)

Bank	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Leasehold improvements Shs'000	Total Shs'000
Year ended 31 December 2022						
Cost or valuation						
At start of year	130,000	155,956	16,044	657,528	609,124	1,568,652
Additions	-	6,154	5,350	233,259	18,940	263,703
Disposals	-	-	(1,288)	(10,059)	-	(11,347)
At end of year	130,000	162,110	20,106	880,728	628,064	1,821,008
Depreciation						
At start of year	4,250	114,334	16,044	601,822	465,687	1,202,137
Charge for the year	2,125	12,038	725	33,340	28,839	77,067
Disposals	-	-	(1,288)	(10,059)	-	(11,347)
At end of year	6,375	126,372	15,481	625,103	494,526	1,267,857
Net book Value	123,625	35,738	4,625	255,624	133,538	553,151
Year ended 31 December 2021						
Cost or valuation						
At start of year	130,000	148,705	16,044	603,194	592,689	1,490,632
Additions	-	7,544	-	53,915	16,435	77,894
Reclass from intangible assets	-	-	-	419	-	419
Disposals	-	(293)	-	-	-	(293)
At end of year	130,000	155,956	16,044	657,528	609,124	1,568,652
Depreciation						
At start of year	2,125	103,073	14,382	578,227	437,673	1,135,480
Charge for the year	2,125	11,548	1,662	23,595	28,014	66,944
Disposals	-	(287)	-	-	-	(287)
At end of year	4,250	114,334	16,044	601,822	465,687	1,202,137
Net book Value	125,750	41,622	-	55,706	143,437	366,515

Notes (continued)

21 Property and equipment (continued)

If the revalued freehold land and building were measured using the cost model, the carrying amounts would be as follows:

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Cost	77,151	77,151
Accumulated depreciation	(42,919)	(41,040)
At end of year	34,232	36,111

Valuation of freehold land and building is undertaken by an independent valuer on a current open market value basis and the revaluation is carried out every 5 years. The last valuation was done in 2019.

22 Right-of-use assets

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
At start of year	748,915	838,451
Additions	88,492	139,376
Amortisation to profit or loss (Note 11)	(167,472)	(200,670)
Adjustment due to changes in cash flows	(45,387)	(28,242)
At end of year	624,548	748,915

The Bank leases office buildings, in the normal course of business. The leases for buildings are typically for a period of average 6 years, with an option to renewal at the end of the term. None of these leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee. The adjustment due to changes in cash flows arises due to changes in tenor or renegotiation of some of the leases terms.

Notes (continued)

23 Intangible assets

Group	Computer software Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2022			
Cost			
At start of year	857,704	6,937	864,641
Additions	27,332	7,326	34,658
Transfers from WIP	4,953	(4,953)	-
At end of year	889,989	9,310	899,299
Amortisation			
At start of year	658,657	-	658,657
Charge for the year	71,860	-	71,860
At end of year	730,517	-	730,517
Net carrying amount			
At end of year	159,472	9,310	168,782
Year ended 31 December 2021			
Cost			
At start of year	808,808	29,857	838,665
Additions	19,458	6,937	26,395
Transfers from WIP	29,438	(29,438)	-
Reclass to property and equipment	-	(419)	(419)
At end of year	857,704	6,937	864,641
Amortisation			
At start of year	581,273	-	581,273
Charge for the year	77,385	-	77,385
At end of year	658,658	-	658,658
Net carrying amount			
At end of year	199,046	6,937	205,983

Notes (continued)

23 Intangible assets (Continued)

Bank	Computer software Shs'000	Work In Progress Shs'000	Total Shs'000
Year ended 31 December 2022			
Cost			
At start of year	851,204	6,937	858,141
Additions	27,332	7,326	34,658
Transfers from WIP	4,953	(4,953)	-
At end of year	883,489	9,310	892,799
Amortisation			
At start of year	653,249	-	653,249
Charge for the year	71,064	-	71,064
At end of year	724,313	-	724,313
Net carrying amount			
At end of year	159,176	9,310	168,486
Year ended 31 December 2021			
Cost			
At start of year	802,308	29,857	832,165
Additions	19,458	6,937	26,395
Transfers from WIP	29,438	(29,438)	-
Reclass to property and equipment	-	(419)	(419)
At end of year	851,204	6,937	858,141
Amortisation			
At start of year	579,219	-	579,219
Charge for the year	74,030	-	74,030
At end of year	653,249	-	653,249
Net carrying amount			
At end of year	197,955	6,937	204,892

Notes (continued)

24 Deferred income tax

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

	Group		Bank	
	2022	**2021**	**2022**	**2021**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year	490,357	625,446	490,307	625,648
Charge to profit or loss (Note 13)	(126,801)	(135,089)	(127,917)	(135,341)
At end of year	363,556	490,357	362,390	490,307

The deferred income tax is attributable to the following:

Group	**1 January 2022**	**Profit or loss**	**31 December 2022**
Year ended 31 December 2022	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(35,513)	12,896	(22,617)
Other temporary differences	(400,589)	103,667	(296,922)
Right-of-use assets/liabilities	(54,255)	10,238	(44,017)
Net deferred income tax asset	(490,357)	126,801	(363,556)

Group	**1 January 2021**	**Profit or loss**	**31 December 2021**
Year ended 31 December 2021	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(29,129)	(6,384)	(35,513)
Other temporary differences	(412,249)	11,660	(400,589)
Tax losses carried forward	(123,970)	123,970	-
Right-of-use assets/liabilities	(60,098)	5,843	(54,255)
Net deferred income tax asset	(625,446)	135,089	(490,357)

Notes (continued)

24 Deferred income tax (continued)

Bank **Year ended 31 December 2022**	**1 January 2022** **Shs '000**	**Profit or loss** **Shs '000**	**31 December 2022** **Shs '000**
Property and equipment	(35,463)	13,005	(22,458)
Other temporary differences	(400,589)	104,674	(295,915)
Right of use assets/liabilities	(54,255)	10,238	(44,017)
Net deferred income tax asset	(490,307)	127,917	(362,390)

Bank **Year ended 31 December 2021**	**1 January 2021** **Shs '000**	**Profit or loss** **Shs '000**	**31 December 2021** **Shs '000**
Property and equipment	(29,973)	(5,490)	(35,463)
Other temporary differences	(411,607)	11,018	(400,589)
Tax losses carried forward	(123,970)	123,970	-
Right of use assets/liabilities	(60,098)	5,843	(54,255)
Net deferred income tax asset	(625,648)	135,341	(490,307)

25. Deposit from banks

	Group and Bank	
	2022 **Shs'000**	**2021** **Shs'000**
Due to Central Bank of Kenya (CBK)	2,497,525	-
Due to local banks	813,284	1,734,461
	3,310,809	1,734,461

The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2022 was 5.2% (2021: 5.0%).

Notes (continued)

26 Deposits from customers

Group	Group 2022 Shs'000	Group 2021 Shs'000	Bank 2022 Shs'000	Bank 2021 Shs'000
Call and fixed deposits	15,153,264	14,714,470	15,153,264	14,714,470
Current and demand accounts	7,411,851	8,368,525	7,432,943	8,379,906
Savings accounts	2,859,177	2,747,436	2,859,178	2,747,436
	25,424,292	25,830,431	25,445,385	25,841,812
Analysis of deposits from customers by maturity:				
Payable within one year	24,377,580	25,609,174	24,398,672	25,620,555
Between one year and five years	1,046,712	221,257	1,046,713	221,257
	25,424,292	25,830,431	25,445,385	25,841,812

Included in 'deposits from customers' were deposits of Shs 2,174 001,000 (2021: Shs 2,265,345,000) that have been pledged to the Bank by customers as securities for loans and advances as well as for guarantees.

The weighted average effective interest rate on interest bearing deposits from customers for the year ended 31 December 2022 was 10.0% (2021: 9.1%).

27 Other payables and accrued expenses

	Group 2022 Shs'000	Group 2021 Shs'000	Bank 2022 Shs'000	Bank 2021 Shs'000
Items in the course of collection	35,571	20,486	35,571	20,486
Other payables and accrued expenses	483,474	381,392	464,313	367,044
	519,045	401,878	499,884	387,530

Notes (continued)

28 Borrowings

	Group and Bank	
	2022	2021
Terms loans:	Shs'000	Shs'000
Aqua for All	4,217	7,207
East Africa Development Bank (EADB)	499,741	515,233
EMF Microfinance Fund	1,230,798	1,121,810
Oikocredit Ecumenical Development Co-operative Society U.A (Oikocredit)	979,568	1,188,335
The Investment Fund for Developing Countries (IFU)	1,643,995	1,591,166
The Netherlands Development Finance Company (FMO)	1,101,845	1,501,102
Triodos Investment Management	1,233,858	1,130,874
WaterEquity	575,768	562,524
	7,269,790	7,618,251

The borrowings are repayable as follows:

	2022	2021
On demand	499,741	-
Within one year	781,660	982,932
Between one to five years	5,314,156	5,407,144
Above five years	674,233	1,228,175
	7,269,790	7,618,251

The movement in borrowings is as summarised below:

	2022	2021
At start of year	7,618,251	4,086,255
Additions during the year	63,425	3,932,334
Repayments during the year	(1,541,961)	(790,546)
Accrued interest (Note 6)	573,086	280,385
Foreign exchange loss	556,988	109,823
At end of year	7,269,790	7,618,251

The weighted average effective interest rate on the borrowings as at 31 December 2022 was 10.07% for LCY loans and 7.04% for FCY loans (2021: 9.23% for LCY and 5.34% for FCY). The borrowings are measured at amortised cost and are all unsecured.

A term loan of EUR 20,000 was received from Aqua for All in September 2020. The loan has a tenor of 2 years repayable as a bullet payment less Aqua for All's share of the funding project. The loan is for on-lending to the water, sanitation and hygiene (WASH) sector.

Notes (continued)

28 Borrowings (continued)

Additional EADB loan of KES 63 million (EUR 0.5 million) was received in January 2022 at a fixed interest rate of 8.5 % p.a. Total loans received since inception of the partnership with EADB is KES 657 million (EUR 5.5 million). The interest is repayable semi-annually. The loan is secured by treasury bonds (Note 18). The loan is for on-lending to the agriculture value chain.

EMF Microfinance Fund, loan of USD 10 million was received in December 2021 at an interest rate of 6.15% plus six-month LIBOR rate p.a. repayable over a period of 7 years. The loan qualifies as tier II capital being a subordinated loan. The LIBOR reference rate will transition to the Secured Overnight Financing Rate (SOFR) effective 30 June 2023.

Additional OikoCredit USD 9 million at an interest rate of 5% p.a. with a tenure of 5 years was received in August 2021. The interest is repayable semi-annually with a 1-year grace period for payment of first principal instalment. The loan is for on-lending to Micro and SME segments.

The IFU convertible loan of USD 12 million was received in March 2019 at an interest rate of 5.25% plus six-month LIBOR rate p.a. The loan has a 7-year tenure, 2-year grace period for payment of interest and an option to convert the outstanding loan into ordinary shares within 5 years of the first draw down. The loan qualifies as tier II capital being a subordinated loan.

FMO loan of USD 20 million was received two tranches – 1st tranche of USD 10 million (December 2019) and 2nd tranche USD 10 million (June 2020) at a rate of 4.25% plus six-month LIBOR rate p.a. repayable year over a period of 5 years. The first principal instalment and interest was paid in November 2020. Interest is repayable semi-annually. The loan is for on-lending to Micro and SME Segments.

A term loan of USD 10 Million was received from Triodos Investment Management in October 2021 (USD 5 million) and November 2021 (USD 5 million) at an interest rate of 5% p.a. The loan has a tenor of 5 years with interest repayable semi-annually and a 2-year grace period for payment of first principal instalment. The loan is for expansion of the micro and/or small and/or medium sized enterprise portfolio.

A term loan of KES 564 million was received from WaterEquity in December 2021 at an interest rate of 10.85% p.a. The loan has a tenor of 5 years with interest repayable semi-annually. The loan is for on-lending to the WASH sector under the COVID 19 response WASH loan product.

The Bank was in breach of the loans to deposits covenant ratio for the EADB facility as at 31 December 2022. The Lender has not recalled, renegotiated or varied their lending terms after year end.

Notes (continued)

29 Lease liabilities

	Group and Bank 2022 Shs'000	2021 Shs'000
Expected to be settled within 12 months after the year end	158,770	164,347
Expected to be settled more than 12 months after the year end	612,502	765,419
	771,272	929,766

The total cash outflow for leases in the year was:

	2022 Shs'000	2021 Shs'000
Payments of principal portion of the lease liability	259,145	296,264
Interest paid on lease liabilities	86,610	100,140
	345,755	396,404

	2022 Shs'000	2021 Shs'000
At start of year	929,766	1,038,780
Additions	88,492	139,376
Interest on lease liabilities (Note 6)	86,610	100,140
Lease payments	(271,324)	(296,264)
Adjustment due to changes in cash flows	(62,272)	(52,266)
At end of year	771,272	929,766

The adjustment due to changes in cash flows arises due to changes in tenor or renegotiation of some of the leases terms.

Notes (continued)

30 Share capital

	Group and Bank	
	2022	2021
	Shs'000	Shs'000
Authorised share capital:		
At 1 January and 31 December	2,500,000	2,500,000

Issued share capital:	Number of shares	Share capital Shs'000	Share premium Shs'000
At 1 January 2022	4,391,912	2,195,956	1,276,841
Issue of shares	5,090	2,545	514
At 31 December 2022	4,397,002	2,198,501	1,277,355
At 1 January 2021	4,092,396	2,046,198	1,246,599
Issue of shares	299,516	149,758	30,242
At 31 December 2021	4,391,912	2,195,956	1,276,841

At 31 December 2022 the authorised share capital comprised 5,000,000 ordinary shares of Shs.500 each (2021: 5,000,000 ordinary shares of Shs 500 each). All issued shares are fully paid.

Notes (continued)

31 Reserves

a) Regulatory reserve

	Group and Bank	
	2022	2021
	Shs'000	Shs'000
At start of year	588,439	293,385
Transfer from retained earnings	49,674	295,054
At end of year	638,113	588,439

The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

b) Revaluation reserve

The revaluation reserve is used to record changes in the fair value of land and buildings, net of deferred income tax.

	Group and Bank	
	2022	2021
	Shs'000	Shs'000
1 January and 31 December	50,034	50,034

Notes (continued)

32 (a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

Group	2022 Shs'000	2021 Shs'000
Profit before income tax	561,987	721,856
Adjustments for:		
Depreciation of property and equipment (Note 21)	77,235	67,046
Amortisation of right of use of asset (Note 22)	167,472	200,670
Amortisation of intangible assets (Note 23)	71,860	77,385
Interest on borrowings (Note 28)	573,086	280,385
Foreign exchange loss on borrowing (Note 28)	556,989	109,823
Interest income on investments securities at amortised cost	-	(285,591)
Interest income on investment securities at FVTPL	-	(54,076)
Revaluation loss of investment securities at FVTPL	-	(8,062)
Interest expense on lease liabilities (Note 29)	86,610	100,140
Gain on disposal of property and equipment (Note 10)	(613)	(14)
Operating profit before changes in operating assets and liabilities	2,094,626	1,209,562
Changes in operating assets and liabilities:		
- Mandatory reserves with the Central Bank of Kenya	570,938	(152,552)
- Loans and advances to customers	(1,360,829)	(3,715,923)
- Other assets and prepayments	333,545	(310,095)
- Deposits from customers	(406,139)	3,090,813
- Balances due to banking institutions	1,576,348	731,768
- Other payables and accrued expenses	117,156	11,696
Cash generated from operations	2,925,645	865,269

Bank	2022 Shs'000	2021 Shs'000
Profit before income tax	536,316	699,816
Adjustments for:		
Depreciation on property and equipment (Note 21)	77,067	66,944
Amortisation on right of use of asset (Note 22)	167,472	200,670
Amortisation of intangible assets (Note 23)	71,064	74,030
Interest on borrowings (Note 28)	573,086	280,385
Foreign exchange loss on borrowing (Note 28)	556,989	109,823
Interest income on investment securities at amortised cost	-	(285,591)
Interest income on investment securities at FVTPL	-	(54,076)
Revaluation loss of investment securities at FVTPL	-	(8,062)
Interest expense on lease liabilities (Note 29)	86,610	100,140
Gain on disposal of property and equipment (Note 10)	(613)	(14)
Operating profit before changes in operating assets and liabilities	2,067,991	1,184,065
Changes in operating assets and liabilities:		
- Mandatory reserves with the Central Bank of Kenya	570,938	(152,552)
- Loans and advances to customers	(1,360,829)	(3,715,923)
- Other assets and prepayments	321,909	(296,366)
- Deposits from customers	(396,427)	3,074,029
- Balances due to banking institutions	1,576,348	731,768
- Other payables and accrued expenses	112,353	15,846
Cash generated from operations	2,892,283	840,867

Notes (continued)

32 (b) Analysis of cash and cash equivalents as shown in the statement of cash flow:

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Cash in hand (Note 15)	854,636	803,149
Balances with Central Bank of Kenya excluding mandatory reserves (Note 15)	183,155	500,010
Deposits with other banks (Note 17)	125,884	71,444
Investment securities maturing within 91 days (Note 18)	439,028	-
	1,602,703	1,374,603

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition, including: cash and balances with Central Banks and amounts due from other banks.

33 Contingent liabilities

The Group is a defendant in various legal suits. In the opinion of the Directors, after taking appropriate legal advice, the outcome of such suits is unlikely to result in any significant loss. The legal suits include claims for general and specific damages and suits challenging the Bank's actions on customers' accounts.

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Pending claims under litigation	53,132	83,148

34 Off balance sheet items

In the ordinary course of business, the Group conducts business involving letters of credit, performance bonds and guarantees. Guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers. Even though these obligations are not recognised on the statement of financial position, they contain credit risk and are part of the overall risk of the Bank as detailed in Note 4.

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Acceptances and letters of credit	1,001,159	621,182
Guarantees	8,591,213	10,259,672
	9,592,372	10,880,854

Notes (continued)

34 Off balance sheet items (Continued)

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

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

The provision for expected credit losses on loans and advances includes an amount of 2022: Shs 20,758,000 (2021: Shs 22,698,000) relating to off balance credit facilities.

35 Related party transactions

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

The Bank's immediate parent company is Bakki Holdco Limited, which is a wholly owned subsidiary of Centum Investment Company Plc, both incorporated in Kenya. There are other companies which are related to the Bank through common shareholdings or common directorships.

The Bank has a wholly owned subsidiary, Sidian Bancassurance Intermediary Limited that commenced operations in August 2015.

In the normal course of business, a number of banking transactions are entered into with related parties. These are staff, directors, their associates and companies associated with directors. They include loans, Investment securities, deposits and other transactions.

In the period, the Bank had the following related party balances and transactions:

	Group and Bank	
i) Loans and advances to related parties	**2022**	**2021**
	Shs'000	**Shs'000**
a) Staff loans		
At start of year	707,797	632,331
Advanced during the year	228,137	219,766
Interest charged	87,478	91,673
Repayments	(335,618)	(235,973)
At end of year	687,794	707,797

The loans to staff are personal loans, car loans and mortgages. All the loans are charged at an interest rate of 6% p.a. Personal and car loans have a maximum tenor of 5 years and are secured by property and cars respectively. Mortgages have a maximum tenor of 25 years.

Notes (continued)

35 Related party transactions (continued)

i) Loans and advances to related parties (continued)

b) Other related parties loans and advances

Year ended 31 December 2022			Group and Bank		
	At 1 Jan Shs '000	Advances Shs '000	Interest Shs '000	Repayment /Transfer Shs '000	At 31 December Shs '000
KWA Multipurpose Co-operative Society	1,705	-	117	(1,034)	788
Directors and their associates	35,758	-	2,312	(13,912)	24,158
Zohari Leasing Limited	120,208	100,160	15,378	(49,144)	186,602
Sabis International School	355,038	-	39,693	(66,648)	328,083
Tribus TSG	12,182	3,661	1,596	(3,426)	14,013
	524,891	103,821	59,096	(134,164)	553,644

Year ended 31 December 2021

KWA Multipurpose Co-operative Society	1,988	2,000	224	(2,507)	1,705
Directors and their associates	41,273	4,000	1,949	(11,464)	35,758
Centum Real Estate	69,952	-	-	(69,952)	-
Zohari Leasing Limited	141,086	9,192	16,460	(46,530)	120,208
Sabis International School	234,927	113,150	36,079	(29,118)	355,038
Tribus TSG	-	12,800	537	(1,155)	12,182
	489,226	141,142	55,249	(160,726)	524,891

Loans and advances to are at commercial rates. The loans have an average tenor of 12 years (2021: 12 years).

ii) Investment securities

Year ended 31 December 2022			Group and Bank		
	At 1 Jan Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	At 31 December Shs '000
Centum Real Estate	80,117	-	10,164	-	90,281

Notes (continued)

35 Related party transactions (continued)

ii) Investment securities (Continued)

Year ended 31 December 2021	Group and Bank				
	At 1 Jan Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	At 31 December Shs '000
Centum Real Estate	69,952	-	10,164	-	80,117

iii) Deposits from related parties

	Group and Bank	
	2022 Shs'000	2021 Shs'000
Ace Nairobi One Limited	1,246	1,377
Sabis International School Runda	6,846	3,726
Athena Properties Limited	61	93
Centum Investment Company Plc	178,398	178,077
Greenblade Growers Limited	56	249
K-Rep Development Agency	-	996
KWA Multipurpose Society	1,277	1,149
KWA Multipurpose Limited	13	17
Longhorn Publishers Limited	268	308
Makao Mashinani Limited	3,036	2,946
Nabo Capital Limited	522,379	745,530
Tribus TSG Limited	35,730	318
Two Rivers Development Limited	705	792
Two Rivers Property Owners Company Limited	656	4
Two Rivers Theme Park Ltd	214	219
Two Rivers Water & Sanitation Company Limited	1,309	6
Uhuru Heights Limited	953	51
Vipingo Development Limited	1,442	431
Zohari Leasing Limited	2,609	35,566
Jafari Credit Limited	9,616	-
	766,814	971,855

Deposits received from related parties attract commercial interest rates at the Bank's floating interest rates.

K-Rep Development Agency and Makao Mashinani are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On the other hand, KWA Multipurpose Co-operative Society and Centum Investment Company Plc are shareholders of the Bank. The rest of the entities disclosed above are Centum affiliated companies.

iv) Related party balances

	Bank	
	2022 Shs'000	2021 Shs'000
Due from Sidian Bancassurance Intermediary Limited (Note 20)	24,572	1,298

Notes (continued)

35 Related party transactions (continued)

v) Investment in Subsidiary

	Bank	
	2022	**2021**
	Shs'000	**Shs'000**
Sidian Bancassurance Intermediary Limited	1,000	1,000

vi) Other transactions with related parties

The Group and Bank paid rental expenses to related parties as per below:

	Group and Bank	
	2022	**2021**
	Shs'000	**Shs'000**
K-Rep Group Limited	23,992	23,340
Two Rivers Lifestyle Centre Limited	8,770	8,027
	32,762	31,367

vii) Key management remuneration

Short term benefits	144,074	135,256
Post-employment benefits	10,685	9,740
	154,759	144,996

viii) Directors' remuneration

Executive director	58,372	53,425
Fees	14,227	11,090
	72,599	64,515

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