SIDIAN BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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Directors	**Non - Executive Directors**	
	Dr. James Mworia	Chairman
	Catherine Mturi-Wairi	Independent
	Kimanthi Mutua	Independent
	Mbaabu Muchiri	Independent
	Tom Kariuki	Independent
	Mary-Ann Musangi	(Resigned 22 August 2023)
	Executive Director	
	Chege Thumbi	Chief Executive Officer
Board Committees		
Audit and Risk Committee	Catherine Mturi-Wairi	Chairperson
	Kimanthi Mutua	
	Mbaabu Muchiri	
	Tom Kariuki	
Asset and Liability Committee	Kimanthi Mutua	Chairperson
	Catherine Mturi-Wairi	
	Mbaabu Muchiri	
	Chege Thumbi	
Credit Committee	Tom Kariuki	Chairperson
	Kimanthi Mutua	
	Mbaabu Muchiri	
	Chege Thumbi	
Nominations and Governance Committee	Tom Kariuki	Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	

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 2023.

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 is 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 loss for the year of Shs 447,957,000 (2022: profit of Shs 395,367,000) has been deducted from retained earnings. The directors do not recommend payment of a dividend for the year (2022: 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 18 to 100 were approved at a meeting of the directors held on 1 March 2024.

By order of the Board

Sarah Chepsoi
Company Secretary

The Group recorded a net loss of Shs 447,957,000 in 2023. The loss is attributed to increased loan provisions as well as a one-off loss of Shs 444 million incurred on early repayment of the IFU long-term borrowing when the Bank exercised its option in line with the Facility Agreement. The increased loan provisions were higher in the year from increased non-performing loans attributed to adverse macro-economic conditions.

In the year, the Bank continued lending and adjusted interest rates upwards in line with market interest rates which grew the interest income on loans by 27%. Further, interest income on government securities increased from the investments made. Interest expenses on customer deposits and borrowings were higher in the period attributed to increased customer deposits as well as impact of rising market interest rates.

Non-funded income growth was driven by trade finance income, channels and digital income as well as bancassurance income which the Group continues to focus on. The loan book grew in the year from continued lending supported by the Bank's high liquidity and SME focus. The Group's operating expenses increased in the year driven by increased staff costs and continued investment in IT systems to support business growth, branch expansion as well as higher inflation experienced in the macro-environment.

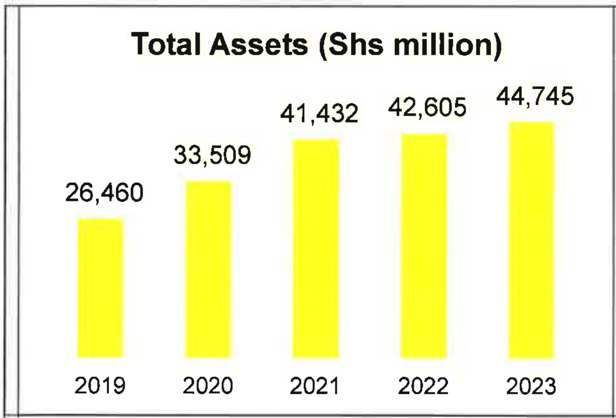
Deposits from customers grew by 9% driven by increased transactions by the Bank's customers as well as continued deposit mobilization through the forty-four-branch network and digital channels. The Bank has invested in various digital channels i.e. mobile banking, mobile lending, internet banking, Sidian Credible 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.

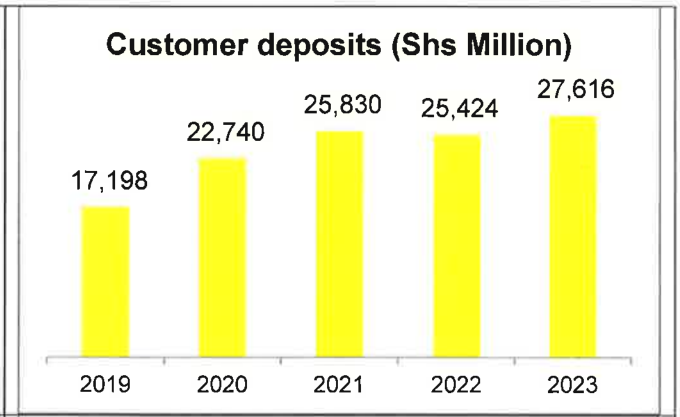
The Group's financial performance over the last five years is detailed below;

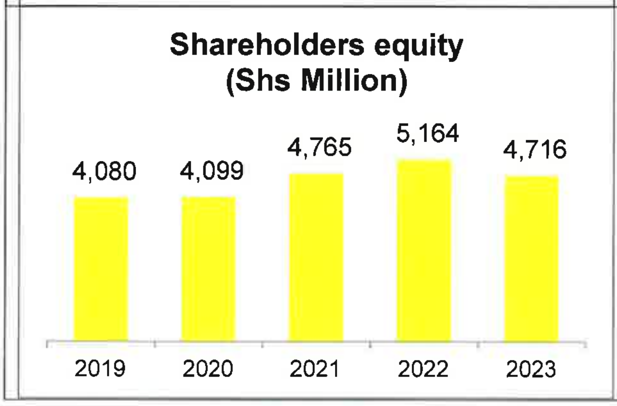
	2019	2020	2021	2022	2023
BALANCE SHEET	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets					
Cash and bank balances	3,306,661	2,716,175	2,640,019	1,803,713	1,964,607
Deposits with other banks	1,743,226	1,903,322	178,659	209,155	1,342,256
Investment securities	3,235,533	6,922,977	13,019,751	13,589,656	14,522,854
Loans and advances to customers	14,526,066	18,997,464	22,595,909	23,901,980	23,222,155
Other assets	3,648,583	2,968,579	2,997,664	3,100,965	3,692,655
Total assets	26,460,069	33,508,517	41,432,002	42,605,469	44,744,527
Liabilities and equity					
Deposits from banks	745,245	1,002,693	1,734,461	3,310,809	2,792,835
Deposits from customers	17,197,726	22,739,618	25,830,431	25,424,292	27,616,225
Borrowings	2,882,177	4,086,255	7,618,251	7,269,790	8,093,592
Other liabilities	1,554,683	1,580,938	1,483,619	1,436,912	1,526,166
Equity	4,080,238	4,099,013	4,765,240	5,163,666	4,715,709
Total liabilities and equity	26,460,069	33,508,517	41,432,002	42,605,469	44,744,527
INCOME STATEMENT					
Interest income	2,133,370	2,487,156	3,542,704	4,518,443	5,519,971
Interest expense	(1,199,462)	(1,628,527)	(2,009,583)	(2,742,687)	(3,319,245)
Net interest income	933,908	858,629	1,533,121	1,775,756	2,200,726
Non-interest income	1,430,084	1,310,515	1,613,561	1,480,623	1,379,930
Total income	2,363,992	2,169,144	3,146,682	3,256,379	3,580,656
Allowance for expected credit losses	(383,131)	(169,271)	(445,589)	(577,013)	(1,375,368)
Loss from derecognition of financial liabilities	-	-	-	-	(444,442)
Operating expenses	(1,881,216)	(1,927,738)	(1,979,237)	(2,117,379)	(2,444,456)
Profit/(loss) before income tax	99,645	72,135	721,856	561,987	(683,610)
Income tax (expense)/credit	12,844	(53,359)	(235,629)	(166,620)	235,653
Profit/(loss) for the year	112,489	18,776	486,227	395,367	(447,957)

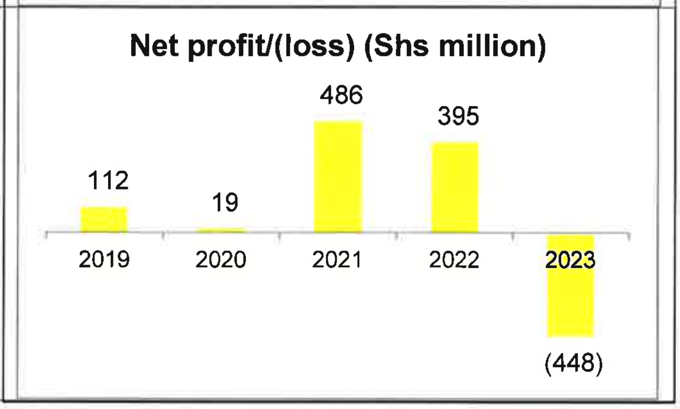
Overall performance (continued)

	2019	2020	2021	2022	2023
PERFORMANCE RATIOS					
Net Interest margin	4.8%	3.8%	5.1%	5.0%	5.8%
Cost-to-income ratio	80%	89%	63%	65%	68%
Net operating income to assets	9.1%	7.2%	8.4%	7.7%	8.2%
Return on equity	2.8%	0.5%	11.0%	8.0%	(9.1%)
Return on assets	0.4%	0.1%	1.3%	0.9%	(1.0%)
Non-performing-loans (NPL) ratio	20.1%	11.5%	11.9%	11.7%	17.7%









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.

	2019	2020	2021	2022	2023
CAPITAL RATIOS					
Core capital to risk weighted assets (min: 10.5%)	14.5%	12.0%	11.8%	12.7%	11.0%
Total capital to risk weighted assets (min: 14.5%)	19.0%	17.2%	18.8%	20.3%	15.7%
LIQUIDITY RATIOS					
Net loans and advances to deposits	84%	84%	87%	94%	84%
Liquidity ratio (min: 20%)	42%	45%	53%	43%	51%

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 approves delegated authority that 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. • Conducting stress testing and scenario analysis. • Performing 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 including a liquidity contingency plan are subject to review and approval by an Assets and Liabilities Committee at Board and management levels. • Performing and monitoring 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 earnings from or the value of on and off-balance sheet positions of the bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads, and/or commodity prices resulting in a loss to earnings and capital. Market risk is comprised of; Foreign exchange risk, Interest rate risk, Price Risk, and Investment Risk.	• Interest rate risk • Foreign exchange risk • Equity Risk	The Group applies the following controls to manage its market risk exposures: • Adherence to (Internal limit) market Risk strategy and Risk Appetite - This is an articulation of the quantum of risk the Bank is willing to accept in pursuit of its business strategy. It can be expressed quantitatively as risk measures such as economic capital and risk limits, and/or qualitatively in terms of policies and controls • 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, Net Stable Funding Ratio, Liquidity Coverage Ratio • 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. • Simulation, stress testing and scenario analysis.
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: • 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. • Regulatory non-compliance	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, IT security and Data Protection policies and frameworks. • 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 malicious infiltration 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: • Development and regular updating of Anti-Money Laundering/ Counter Terrorism Financing/ Counter Proliferation Financing (AML/CFT/CFP) policies, procedures and processes for management of the AML/CFT/ CPF risks. Policies are approved at board level • Review adequacy of internal control measures in the compliance operating environment of the business • Assessing a reporting of the bank for AML/CFT/CPF Risks. • Adequate risk and compliance staffing levels with appropriate qualification and regular training • AML Systems for customer transaction monitoring 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; • Operational risk tools in place to include operational self-risk assessments; • Dual control processes and segregation of duties; • Review of 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	2019 USD '000	2020 USD '000	2021 USD'000	2022 USD'000	2023 USD'000	Total USD '000
FMO	10,000	10,000	-	-	-	20,000
IFU	12,000	-	-	-	-	12,000
Oiko Credit	-	-	9,000	-	10,000	19,000
Triodos Investment Management	-	-	10,000	-	-	10,000
EMF Microfinance Fund	-	-	10,000	-	-	10,000
Water Equity	-	-	-	-	5,000	5,000
						76,000

LCY Borrowings	2019 KES '000	2020 KES '000	2021 KES '000	2022 KES '000	2023 KES '000	Total KES '000
Oiko Credit	300,000	-	-	-	-	300,000
East Africa Development Bank (EADB)	170,003	237,720	128,180	63,245	-	599,148
Aqua for All	-	25,139	-	-	-	25,139
Water Equity	-	-	564,000	-	-	564,000
						1,488,287

2024 Focus

The Bank has identified four pillars to drive its strategy - Customer deposits growth; Digital, Innovation & Automation; Organic & Inorganic growth and People, Culture & Risk management. The Customer deposits growth will be driven by the Public sector as well as Retail business expansion with planned opening of additional new branches. The Digital, Innovation & Automation pillar will enhance digital offerings to Government, Counties, Parastatals, Corporates, SMEs and Individuals. Key innovations will drive the loan book growth as well as customer acquisition. Trade Finance will be a key driver of the Bank's growth in the medium term as the Bank continues as the 'Go To Bank' for Trade Finance solutions. The Organic & Inorganic growth will entail enhanced customer experience, marketing and brand building activities as well as a planned capital injection to support business growth. Under the People, Culture & Risk management pillar the Bank will recruit additional staff and enhance staff motivation and productivity to support a larger Bank. Further, the Bank will enhance its risk management policies and processes to safeguard the increased business. These initiatives will propel the Bank towards its goal of becoming a Tier 2 Bank.

Corporate Governance Statement

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 Group Board of Directors (the Board) is mandated to control and direct the activities, affairs, operations and property of the Group with a view to maximize shareholders value, increase profitability and guarantee sustainable business.

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 Board understands that consistent practice and maintenance of good corporate governance is fundamental 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 and Guidelines set by itself in accordance with international best practices. The Group Board of Directors has adopted a comprehensive framework of Corporate Governance Guidelines, designed to ensure performance of the Group's enhanced targets and regulatory compliance.

The Group has adopted the highest standards of integrity and ethics in all undertakings. It has also ensured that there is adequate accountability in its actions and transparency in relation with stakeholders, shareholders and the general public.

Board of Directors

The Board consists of six members chaired by Dr. James Mworia, of the six members, five are non-executive directors and one is an executive director who is currently the Bank's Chief Executive Officer. During the year Ms. Mary- Ann Musangi resigned from the Board. The Board as currently constituted is in line with its Articles of Association and Central Bank of Kenya guidelines requirements requiring the Bank to be composed of at least five directors and not more than ten. 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 five 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, Central Bank of Kenya (CBK) Guidelines on Corporate Governance (CBK/PG/02), 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 2023 was conducted internally in February 2024.

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 IFRS Accounting Standards.

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 Group 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 Group operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame. The Chairperson of this committee is a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Board Asset and Liability Committee

The Board Asset and Liability Committee is set up to derive the most appropriate strategy for the Group 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 Group's strategies on statutory requirements on liquidity, foreign exchange exposure and cash ratio.

Board Credit Committee

The Board 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 Nominations and Governance Committee

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

Board Remuneration

The Board has a Board Remuneration Structure which provides that each Non-Executive Director shall receive a fixed retainer fee as a member of the Board and sitting allowance for every meeting attended. The Non- Executive Directors are not covered by the Bank's incentive programmes or receive any performance-based remuneration. The retainer fees and sitting allowances are determined by the Board and approved by Shareholders at the Bank's AGM on a pre/ post-facto basis. The remuneration of all Directors is subject to regular monitoring to ensure that they are appropriate. Details of the fees for the Non-executive Directors and remuneration of the Executive Director paid in 2023, are set out in note 35 (viii).

Senior Management Remuneration

The Board Nominations and Governance Committee has the responsibility to oversee Senior Management remuneration by approving the Chief Executive Officer ("CEO") and Senior Management remuneration packages. The Committee monitors compliance with the HR Policy and Reward and Recognition Policy and ensure these are applied consistently. In order to realize the Group's corporate philosophy, the Reward and Recognition policy has put in place a system that motivates Executives to achieve the Group's long-term growth strategy. The basic policy on executive remuneration and other general matters concerning the systems such as remuneration level, remuneration composition, evaluation indicators and executive remuneration regulations are determined by a resolution of the Board of Directors, based on deliberations by the Nominations and Governance Committee. The remuneration of Senior Management is therefore based on the business performance for each fiscal year and a remuneration system linked to shareholder value in order to increase the willingness to contribute to the improvement of corporate value over the medium to long term. Details of the Senior Management remuneration paid in 2023, are set out in note 35 (vii).

Board Meetings

The Board scheduled six board meetings during the year. The Board meetings attendance for the year ended 31 December 2023 is as below;

	Jan	Mar	May	Sep	Nov	Meeting Attendance
Meetings held						
Dr. James Mworia	1	1	1	1	1	5/6
Mary-Ann Musangi*	1	1	1	-	-	3/3
Kimanthi Mutua	1	1	1	1	2	6/6
Tom Kariuki	1	1	1	1	2	6/6
Catherine Mturi-Wairi	1	1	1	1	2	6/6
Chege Thumbi	1	1	1	1	2	6/6
Mbaabu Muchiri	1	1	1	1	1	5/6

*Mary-Ann Musangi resigned from the Group Board in August 2023

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 IFRS Accounting Standards.

Shareholding

The Bank's shareholders at 31 December 2023 were as follows:

		Number of shares	Value of shares Shs '000'	Percentage Shareholding
1	Bakki Holdco Limited	1,760,196	880,099	40.03%
2	Pioneer General Insurance Limited	1,090,456	545,228	24.80%
3	Wizpro Enterprises Limited	803,332	401,666	18.27%
4	Afram Limited	347,661	173,830	7.91%
5	Telesec Africa Limited	197,807	98,903	4.50%
6	Pioneer Life Investments Limited	197,550	98,775	4.49%
	Total	**4,397,002**	**2,198,501**	**100.00%**

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 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 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 IFRS Accounting Standards and in the manner required by the 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 1 March 2024 and signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr. James Mworia
Chairman

REPORT OF THE INDEPENDENT AUDITOR 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 18 to 100, which comprise the consolidated statement of financial position at 31 December 2023 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 2023, 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, comprising material 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 2023 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting 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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REPORT OF THE INDEPENDENT AUDITOR 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 IFRS Accounting 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.

- 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.

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

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

- 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.

Kang'e Saiti

FCPA Kang'e Saiti, Practising certificate Number 1652
Engagement partner responsible for the audit

For and behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

27 March **2024**

Consolidated statement of profit or loss and other comprehensive income

	Notes	2023 Shs'000	2022 Shs'000
Interest income	5	5,519,971	4,518,443
Interest expense	6	(3,319,245)	(2,742,687)
Net interest income		2,200,726	1,775,756
Fee and commission income	7	1,089,048	1,066,053
Fee and commission expense	7	(6,381)	(4,363)
Net fee and commission income		1,082,667	1,061,690
Net trading income	8	301,585	396,896
Allowance for expected credit losses	9	(1,375,368)	(577,013)
Loss from derecognition of financial liabilities	28	(444,442)	-
Other operating (loss)/ income	10	(4,322)	22,037
Net operating income		1,760,846	2,679,366
Operating expenses	11	(2,444,456)	(2,117,379)
(Loss)/profit before income tax		(683,610)	561,987
Income tax credit/(expense)	13	235,653	(166,620)
(Loss)/profit for the year		(447,957)	395,367
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 (loss)/income		(447,957)	395,367

Bank statement of profit or loss and other comprehensive income

	Notes	2023 Shs'000	2022 Shs'000
Interest income	5	5,518,734	4,517,505
Interest expense	6	(3,319,245)	(2,742,687)
Net interest income		2,199,489	1,774,818
Fee and commission income	7	974,726	958,587
Fee and commission expense	7	(6,381)	(4,202)
Net fee and commission income		968,345	954,385
Net trading Income	8	301,585	396,896
Allowance for expected credit losses	9	(1,371,548)	(574,980)
Loss from derecognition of financial liabilities.	28	(444,442)	-
Other operating income	10	55,677	72,037
Net operating income		1,709,106	2,623,156
Operating expenses	11	(2,404,499)	(2,086,840)
(Loss)/profit before income tax		(695,393)	536,316
Income tax credit/(expense)	13	257,416	(143,897)
(Loss)/profit for the year		(437,977)	392,419
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 (loss)/income		(437,977)	392,419

Consolidated statement of financial position

	Notes	2023 Shs'000	2022 Shs'000
Assets			
Cash and balances with the Central Bank of Kenya	15	1,964,607	1,803,713
Financial assets at fair value through profit or loss	16	42,750	-
Deposits and balances due from banking institutions	17	1,342,256	209,155
Investment securities	18	14,522,854	13,589,656
Loans and advances to customers	19	23,222,155	23,901,980
Other assets and prepayments	20	1,534,460	1,279,952
Current income tax	13	-	110,410
Property and equipment	21	536,546	553,717
Right-of-use assets	22	633,998	624,548
Intangible assets	23	163,223	168,782
Deferred income tax	24	781,678	363,556
Total assets		44,744,527	42,605,469
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	-	146,595
Deposits and balances due to banking institutions	25	2,792,835	3,310,809
Deposits from customers	26	27,616,225	25,424,292
Other liabilities and accrued expenses	27	677,796	519,045
Borrowings	28	8,093,592	7,269,790
Lease liabilities	29	800,889	771,272
Current income tax	13	47,481	-
Total liabilities		40,028,818	37,441,803
Equity			
Share capital	30	2,198,501	2,198,501
Share premium	30	1,277,355	1,277,355
Regulatory reserve	31	181,790	638,113
Revaluation reserve	31	50,034	50,034
Retained earnings		1,008,029	999,663
Total equity		4,715,709	5,163,666
Total liabilities and equity		44,744,527	42,605,469

The financial statements on pages 18 to 100 were approved by the Board of Directors on 1 March 2024 and were signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Dr. James Mworia
Chairman

Bank statement of financial position

	Notes	2023 Shs'000	2022 Shs'000
Assets			
Cash and balances with the Central Bank of Kenya	15	1,964,607	1,803,713
Financial assets at fair value through profit or loss	16	42,750	-
Deposits and balances due from banking institutions	17	1,342,256	209,155
Investment securities	18	14,512,720	13,579,530
Investment in subsidiary	35	1,000	1,000
Loans and advances to customers	19	23,222,155	23,901,980
Other assets and prepayments	20	1,543,952	1,275,878
Current income tax	13	-	105,711
Property and equipment	21	536,107	553,151
Right-of-use assets	22	633,998	624,548
Intangible assets	23	159,287	168,486
Deferred income tax	24	779,696	362,390
Total assets		44,738,528	42,585,542
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	16	-	146,595
Deposits and balances due to banking institutions	25	2,792,835	3,310,809
Deposits from customers	26	27,644,767	25,445,385
Other liabilities and accrued expenses	27	649,669	499,884
Borrowings	28	8,093,592	7,269,790
Lease liabilities	29	800,889	771,272
Current income tax	13	52,946	-
Total liabilities		40,034,698	37,443,735
Equity			
Share capital	30	2,198,501	2,198,501
Share premium	30	1,277,355	1,277,355
Regulatory reserve	31	181,790	638,113
Revaluation reserve	31	50,034	50,034
Retained earnings		996,150	977,804
Total equity		4,703,830	5,141,807
Total liabilities and equity		44,738,528	42,585,542

The financial statements on pages 18 to 100 were approved by the Board of Directors on 1 March 2024 and were signed on its behalf by:

Chege Thumbi	Dr. James Mworia
Chief Executive Officer	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 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
Transfer of reserves	31	-	-	49,674	-	(49,674)	-
Transactions with owners, recorded directly in equity:							
New shares issue	30	2,545	514	-	-	-	3,059
At end of year		2,198,501	1,277,355	638,113	50,034	999,663	5,163,666
Year ended 31 December 2023							
At start of year		2,198,501	1,277,355	638,113	50,034	999,663	5,163,666
Total comprehensive income for the year:							
Loss for the year		-	-	-	-	(447,957)	(447,957)
Transfer of reserves	31	-	-	(456,323)	-	456,323	-
At end of year		2,198,501	1,277,355	181,790	50,034	1,008,029	4,715,709

Bank 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 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
Transfer of reserves	31	-	-	49,674	-	(49,674)	-
Transactions with owners, recorded directly in equity							
New shares issue	30	2,545	514	-	-	-	3,059
At end of year		2,198,501	1,277,355	638,113	50,034	977,804	5,141,807
Year ended 31 December 2023							
At start of year		2,198,501	1,277,355	638,113	50,034	977,804	5,141,807
Total comprehensive income for the year:							
Loss for the year		-	-	-	-	(437,977)	(437,977)
Transfer of reserves	31	-	-	(456,323)	-	456,323	-
At end of year		2,198,501	1,277,355	181,790	50,034	996,150	4,703,830

Consolidated statement of cash flows

	Notes	2023 Shs'000	2022 Shs'000
Cash flows from operating activities			
Cash generated from operations	32	3,989,745	2,925,645
Income tax paid	13	(24,318)	(94,763)
Net cash flows from operating activities		3,965,427	2,830,882
Cash flows from investing activities			
Purchase of investment securities		(1,706,946)	(3,273,041)
Proceeds from sale of investment securities		2,704,395	2,703,136
Purchase of property and equipment	21	(99,160)	(264,210)
Purchase of intangible assets	23	(68,396)	(34,658)
Proceeds from sale of property and equipment		49,405	613
Net cash flows from investing activities		879,298	(868,160)
Cash flows from financing activities			
Proceeds from borrowings	28	2,337,425	63,425
Repayment of borrowings	28	(4,447,782)	(1,541,961)
Principal payments for lease liabilities	29	(220,893)	(259,145)
Rights issue - Additional share capital		-	3,059
Net cash flows from financing activities		(2,331,250)	(1,734,622)
Net decrease in cash and cash equivalents		2,513,475	228,100
Cash and cash equivalents at start of year	32	1,602,703	1,374,603
Cash and cash equivalents at end of year	32	4,116,178	1,602,703

Bank statement of cash flows

	Notes	2023 Shs'000	2022 Shs'000
Cash flows from operating activities			
Cash generated from operations	32	3,962,884	2,892,283
Income tax paid	13	(1,233)	(72,035)
Net cash flows from operating activities		3,961,651	2,820,248
Cash flows from investing activities			
Purchase of investment securities		(1,706,946)	(3,262,915)
Proceeds from sale of investment securities		2,694,268	2,703,136
Purchase of property and equipment	21	(99,018)	(263,702)
Purchase of intangible assets	23	(64,527)	(34,658)
Proceeds from sale of property and equipment		49,162	613
Net cash flows from investing activities		872,939	(857,526)
Cash flows from financing activities			
Proceeds from borrowings	28	2,337,425	63,425
Repayment of borrowings	28	(4,447,782)	(1,541,961)
Principal payments for lease liabilities	29	(220,893)	(259,145)
Rights issue - Additional share capital		-	3,059
Net cash flows from financing activities		(2,331,250)	(1,734,622)
Net decrease in cash and cash equivalents		2,503,340	228,100
Cash and cash equivalents at start of year	32	1,602,703	1,374,603
Cash and cash equivalents at end of year	32	4,106,043	1,602,703

Notes

1 Corporate information

Sidian Bank Limited (the "Bank") and its subsidiary Sidian Bancassurance Intermediary Limited (the "Subsidiary") are incorporated and domiciled in Kenya and operate in Kenya. The registered address of the Bank and its subsidiary is as indicated on page 1:

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 material 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 IFRS Accounting Standards 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 material 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

A few amendments to standards became effective for the first time in the financial year beginning 1 January 2023 and have been adopted by the Group. The amendments have not had an effect on the Group's financial statements. The amendments are as follows:

Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules

These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

None of these amendments had material impact on the financial statements of the Bank.

b) IFRS Accounting Standards, interpretations and amendments issued but not effective

Amendments to IAS 1 - Non-current liabilities with covenants

These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

Amendment to IFRS 16 – Leases on sale and leaseback

These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation (continued)

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

b) IFRS Accounting Standards, interpretations and amendments issued but not effective (continued)

Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)

These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

Amendments to IAS 21 - Lack of Exchangeability (Amendments to IAS 21)

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.

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

(c) Foreign currency translation

(i)Transactions and balances

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement

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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

(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.

(iv) Derecognition other than on a modification.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(e) Financial instruments (continued)

Financial assets and liabilities (continued)

Financial Liabilities (continued)

(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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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
Leasehold improvements	10 years
Furniture and Fittings	8 years
Computer Equipment & Computer Software	5 years
Motor vehicles	4 years
Machinery & Office 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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(r) Accounting for leases (continued)

The Group as lessee (continued)

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.

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.

Notes (continued)

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.

(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.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

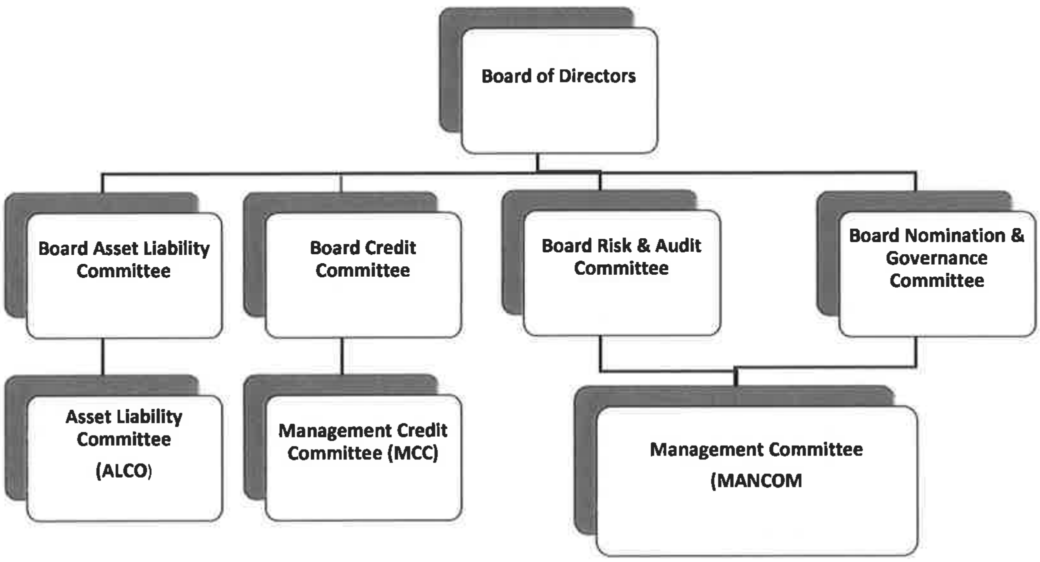
(iv) Income taxes

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.

Risk Governance Structure



Notes (continued)

4 Financial risk management (continued)

Key roles and responsibilities regarding risk management are summarized below;

Level	Role
Board of Directors	The primary role of the Board is to act as the shareholders representatives in all aspects and to govern the Group. Secondly, it is to ensure shareholders performance expectations, CBK's regulatory requirements and stakeholders' expectations are met and or fulfilled. The Board is responsible to the shareholders, the Central Bank and shareholders for the fulfilment of its role. The BoD has delegated its authority and powers regarding the oversight and control of risk issues to a Board Audit Risk Committee (BARC).
Board Audit and Risk Committee (BARC)	The Committee is responsible for providing independent oversight of the Group's financial reporting and internal control system, ensuring checks and balances within the institution are in place and recommending appropriate remedial action regularly. The BARC formulates and recommends to the BoD the aggregate risk appetite of Sidian Bank Limited, ensures that appropriate policies, controls and measures are in place to support this and to give appropriate oversight to management to ensure conformance. It is accountable to the Board of Directors.
Board Assets Liability Committee (BALCO)	BALCO, or the Group's ALCO (Asset and Liability Committee), manages liquidity, interest rates, and maturity gaps. It oversees capital compliance, reviews investments, and formulates strategies. BALCO monitors foreign currency exposure, recommends and implements financial risk management policies, and ensures conduct risk alignment. It also monitors performance against budget and strategic plans, ensuring effective financial initiatives. 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.
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 assists the Board aAdit Risk Committee in the discharge of its duties relating to of management, assurance and reporting of risks.

Notes (continued)

4 Financial risk management (continued)

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 and risk appetite statements 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 facilitate and monitor the implementation of risk management practices, a compliance function that monitors specific risks on non-compliance with applicable laws and regulations including Anti-Money Laundering/ Counter Terrorism Financing/ Counter Proliferation Financing (AML/CFT/ CPF) risks, 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.

(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.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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.

(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.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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, debt service ability, credit history, 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:

(i) 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 2023, 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) Risk based pricing of Credit

The Bank has implemented differential credit pricing, based on a customer's credit rating, in line with prevailing prudential guidelines. The risk based pricing methodology is aligned to the credit risk grading and embedded to the loan screening processes.

(iii) 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.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).

Notes (continued)

4 Financial risk management (continued)

Credit risk (continued)

(iii) Expected credit loss measurement (continued)

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.

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)

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

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.

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

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.

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	157.0	169.4	144.4
Nominal GDP	5.0%	5.2%	4.8%
Interest rates (lending rates)	14.6%	16.1%	13.2%
Inflation	6.6%	6.8%	6.4%

The weightings assigned to each economic scenario at 1 January 2023 and 31 December 2023 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 2023 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%	39,409
Weightings (-10%)	40%	20%	10%	(39,409)

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**	**2023 Shs'000**	**%**	**2022 Shs'000**	**%**
Items recognised in the statement of financial position:					
Financial instruments subject to impairment					
Balances with Central Bank of Kenya	15	1,102,238	2.1	949,077	1.9
Financial assets at fair value through profit or loss	16	42,750	0.1	-	
Deposits with other banks	17	1,415,028	2.7	211,988	0.4
Investments at amortised cost	18	14,269,036	26.8	13,589,656	27.5
Loans and advances to customers	19	25,118,092	47.2	24,560,176	49.7
Other assets	20	1,520,968	2.9	1,232,488	2.5
Gross carrying amount		43,468,112	81.8	40,543,385	82.0
Loss allowance		(1,949,674)	(3.8)	(676,813)	(1.4)
Net carrying amount		41,518,438	78.0	39,866,572	80.6
Financial instrument not subject to impairment					
Investments at FVOCI		253,818	0.5	-	-
Items not recognised in the statement of financial position:					
Acceptances and letters of credit	34	375,838	0.7	1,001,159	2.0
Guarantees	34	11,070,338	20.8	8,591,213	17.4
		53,218,432	100	49,458,944	100

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)

Bank	Notes	2023 Shs'000	%	2022 Shs'000	%
Items recognised in the statement of financial position:					
Financial instrument subject to impairment					
Balances with Central Bank of Kenya	15	1,102,238	2.1	949,077	1.9
Financial assets at fair value through profit or loss	16	42,750	0.1	-	-
Placements with other banks	17	1,415,028	2.7	211,988	0.6
Investments at amortised cost	18	14,258,902	26.8	13,579,530	27.4
Loans and advances to customers	19	25,118,092	47.2	24,560,176	49.6
Other assets	20	1,521,663	2.9	1,257,060	2.5
Gross carrying amount		43,458,673	81.8	40,557,831	82.0
Loss allowance		(1,945,603)	(3.8)	(676,813)	(1.4)
Net carrying amount		41,513,070	78.0	39,881,018	80.6
Financial instrument not subject to impairment					
Investments at FVOCI		253,818	0.5	-	-
Items not recognised in the statement of financial position:					
Acceptances and letters of credit	34	375,838	0.7	1,001,159	2.0
Guarantees	34	11,070,338	20.8	8,591,213	17.4
		53,213,064	100	49,473,390	100

The above tables represent a worst-case scenario of credit risk exposure to the Group and Bank at 31 December 2023 and 31 December 2022 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 – financial instruments subject to impairment

The breakdown of loans and advances is summarised below:

Group and Bank 2023	**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	-	-	952,495	952,495
Grade 4: Doubtful	-	-	2,994,209	2,994,209
Grade 5: Loss	-	-	537,907	537,907
Gross amount	-	-	**4,484,611**	**4,484,611**
Credit impairment losses	-	-	948,550	948,550
Carrying amount	-	-	**3,536,061**	**3,536,061**
Collectively impaired				
Grade 1: Normal	17,216,805	-	-	17,216,805
Grade 2: Watch	-	3,416,676	-	3,416,676
Gross amount	**17,216,805**	**3,416,676**	-	**20,633,481**
Credit impairment losses	79,336	868,051	-	947,387
Carrying amount	**17,137,469**	**2,548,625**		**19,686,094**
Total carrying amount	**17,137,469**	**2,548,625**	**3,536,061**	**23,222,155**

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)

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	2023 Shs '000	Stage	ECL Shs '000	2022 Shs '000	Stage	ECL Shs '000
Balances with Central bank	1,102,238	1	-	949,077	1	-
Deposits with other banks	1,381,506	1	33,522	209,155	1	2,833
Investment securities	14,269,036	1	-	13,589,656	1	-
Other receivables	715,688	1	15,784	617,162	1	15,784
	17,468,468		49,306	15,365,050		18,617

Bank	2023 Shs '000	Stage	ECL Shs '000	2022 Shs '000	Stage	ECL Shs '000
Balances with Central bank	1,102,238	1	-	949,077	1	-
Deposits with other banks	1,381,506	1	33,522	209,155	1	2,833
Investment securities	14,258,902	1	-	13,579,530	1	-
Other receivables	499,360	1	15,784	501,447	1	15,784
	17,242,006		49,306	15,239,209		18,617

Other financial assets – financial instruments not subject to impairment

	Group and Bank	
	2023 Shs '000	2022 Shs '000
Financial assets at fair value through profit or loss	42,750	-
Financial assets at fair value through other comprehensive income	253,818	-
	296,568	-

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 2023, 56% (2022: 62%) 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	
	2023	**2022**
	Shs'000	**Shs'000**
Individually assessed impaired loans and advances:		
Micro loans	1,046,967	1,114,849
SME loans	3,437,644	1,765,199
	4,484,611	2,880,048
Fair value of collateral held	2,527,608	1,777,942

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 2023	94,284	105,340	458,572	658,196
Net staging transfers	17,045	(31,198)	14,153	-
New financial assets originated or purchased	(13,909)	620,327	159,663	766,081
Financial assets derecognized	(18,084)	173,582	438,037	593,535
Net charge to profit or loss in the year	(14,948)	762,711	611,853	1,359,616
Interest on stage 3 loans	-	-	(337,302)	(337,302)
Write-offs	-	-	(22,822)	(22,822)
Interest in Suspense			238,249	238,249
At 31 December 2023	79,336	868,051	948,550	1,895,937

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
Net charge to profit or loss in the year	46,068	20,112	421,376	487,556
Other movements with no P&L impact:	(20,020)	29,625	597,552	607,157
Financial assets derecognized	-	-	(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

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	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Shs '000	Shs '000	Shs '000	Shs '000
At 1 January 2023	19,752,481	1,927,646	2,880,049	24,560,176
Net staging transfers	(3,017,665)	1,448,168	1,569,497	-
Financial assets de-recognized	(2,358,686)	(83,138)	(56,601)	(2,498,425)
New financial assets originated	2,840,675	124,000	114,489	3,079,164
Write-offs	-	-	(22,823)	(22,823)
At December 2023	17,216,805	3,416,676	4,484,611	25,118,092

Group and Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	Shs '000	Shs '000	Shs '000	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 derecognized	(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

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	
	2023	**2022**
	%	**%**
Agriculture	1.9	1.9
Manufacturing	10.0	6.9
Building and construction	11.2	8.2
Mining and Quarrying	0.3	0.3
Energy and water	2.3	2.6
Trade	37.2	46.7
Tourism, restaurant and Hotels	1.1	8.3
Transport and Communication	6.8	7.8
Real Estate	3.4	5.7
Financial Services	5.6	3.5
Personal Household	20.2	8.1
	100.0	100.0

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 22 million (2022: Shs 816 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 2023 was Shs 4,174 million (2022: Shs 1,681 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
2023						
Financial assets						
Cash and bank balances	1,964,607	-	-	-	-	1,964,607
Deposits with other banks	1,381,506	-	-	-	-	1,381,506
Investment securities	-	517,784	1,975,831	6,715,757	19,078,403	28,287,775
Loans and advances to customers	-	4,126,812	2,142,744	24,089,767	2,284,903	32,644,226
Other assets	1,538,681	-	-	-	-	1,538,681
Total financial assets	4,884,794	4,644,596	4,118,575	30,805,524	21,363,306	65,816,795
Financial liabilities						
Deposits due to banks	-	2,797,110	-	-	-	2,797,110
Deposits from customers	9,403,728	15,598,014	3,265,892	1,012,035	22,464	29,302,133
Other liabilities and accrued expenses	677,645	-	-	-	-	677,645
Borrowings	6,565,517	4,405	556,746	1,307,872	-	8,434,540
Total financial liabilities	16,646,890	18,399,529	3,822,638	2,319,907	22,464	41,211,428
Liquidity gap	(11,762,096)	(13,754,933)	295,937	28,485,617	21,340,842	24,605,367
Financial guarantees	(5,234,462)	(13,742,882)	(220,032)	14,692,843	8,403,011	3,898,478
Foreign currency swaps	42,750	-	-	-	-	42,750

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
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)

Bank **Expected maturity dates**	**On demand**	**1 - 3 months**	**3 – 12 Months**	**1 - 5 years**	**Over 5 years**	**Total**
2023	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets						
Cash and bank balances	1,964,607	-	-	-	-	1,964,607
Deposits with other banks	1,381,506	-	-	-	-	1,381,506
Investment securities at amortized cost	-	517,784	1,965,697	6,715,757	19,078,403	28,277,641
Investment securities at FVPL	42,750	-	-	-	-	42,750
Loans and advances to customers	-	4,126,812	2,142,744	24,089,767	2,284,903	32,644,226
Other assets	1,539,378	-	-	-	-	1,539,378
						-
Total financial assets	4,928,241	4,644,596	4,108,441	30,805,524	21,363,306	65,850,108
Financial liabilities						
Deposits due to banks	-	2,797,110	-	-	-	2,797,110
Deposits from customers	9,432,270	15,598,014	3,265,892	1,012,035	22,464	29,330,675
Other liabilities and accrued expenses	649,516	-	-	-	-	649,516
Borrowings	6,565,517	4,405	556,746	1,307,872	-	8,434,540
Total financial liabilities	16,647,303	18,399,529	3,822,638	2,319,907	22,464	41,211,841
Liquidity gap	(11,719,062)	(13,754,933)	285,803	28,485,617	21,340,842	24,638,267
Financial guarantees	(5,234,462)	(13,742,882)	(220,032)	14,692,843	8,403,011	3,898,478
Foreign currency swaps	42,750	-	-	-	-	42,750

Notes (continued)

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

Expected maturity dates	**On demand**	**1 - 3 months**	**3 – 12 Months**	**1 - 5 years**	**Over 5 years**	**Total**
2022	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
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 amortized cost	-	449,482	185,821	4,658,476	22,855,159	28,148,938
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)

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 2023	**USD Shs'000**	**EURO Shs'000**	**GBP Shs'000**	**Other Shs'000**	**Total Shs'000**
Financial assets					
Cash and bank balances	272,982	113,067	16,131	6	402,186
Deposits with other banks	609,658	272,830	7,575	76	890,139
Loans and advances	4,054,992	10	-	-	4,055,002
Investment securities at amortized cost	979,938	-	-	-	979,938
Total financial assets	5,917,570	385,907	23,706	82	6,327,265
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	(1,159,983)	249,488	18,080	82	(892,333)

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	214,468
Loans and advances	2,961,141	1	-	-	2,961,142
Investment securities at amortized cost	713,395	-	-	-	713,395
Total financial assets	3,923,235	139,822	8,170	879	4,072,106
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)

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	
	2023	**2022**
Shs/ US dollar	**Shs'000**	**Shs'000**
Effect on profit before income tax of a +/-5% change in exchange rates	(124,021)	(157,716)
Shs / Euro		
Effect on profit before income tax of a +/-5% change in exchange rates	3,125	170

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.

Sensitivity analysis

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	
	2023	**2022**
	Shs'000	**Shs'000**
Effect on profit before income tax of a +/-2% change in interest rates	24,677	282
Effect on profit before income tax (%)	+/-23.3%	+/-0.04%

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

2023	**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	-	-	-	-	-	1,964,607	1,964,607
Deposits with other banks	-	-	-	-	-	1,381,506	1,381,506
Investment securities	-	511,294	1,848,247	4,723,754	7,439,559	-	14,522,854
Loans and advances to customers	-	4,015,150	1,996,157	15,840,909	1,369,939	-	23,222,155
	-	4,526,444	3,844,404	20,564,663	8,809,498	3,346,113	41,091,122
Financial liabilities:							
Deposits due to banks	-	2,792,835	-	-	-	-	2,792,835
Deposits from customers	-	15,472,148	2,526,783	184,453	571	9,432,270	27,616,225
Borrowings	6,518,459	4,343	528,661	1,042,129	-	-	8,093,592
	6,518,459	18,269,326	3,055,444	1,226,582	571	9,432,270	38,502,652
Total interest repricing gap	(6,518,459)	(13,742,882)	788,960	19,338,081	8,808,927	(6,086,157)	2,588,470

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

Interest rate risk (continued)

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	-	-	-	190,780	209,155
Investment securities	-	439,028	90,281	3,648,039	9,412,308	-	13,589,656
Loans and 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	1,994,493	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	(5,439,072)	3,499,613

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iv) Interest rate risk (continued)

Bank

2023	**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	-	-	-	-	-	1,967,965	1,967,965
Deposits with other banks	-	-	-	-	-	1,381,506	1,381,506
Investments securities	-	511,294	1,848,247	4,713,620	7,439,559	-	14,512,720
Loans and advances to customers	-	4,015,150	1,996,157	15,840,909	1,369,939	-	23,222,155
	-	4,526,444	3,844,404	20,554,529	8,809,498	3,349,471	41,084,346
Financial liabilities:							
Deposits due to banks	-	2,792,835	-	-	-	-	2,792,835
Deposits from customers	-	15,472,148	2,555,325	184,453	571	9,432,270	27,644,767
Borrowings	6,518,459	4,343	528,661	1,042,129	-	-	8,093,592
	6,518,459	18,269,326	3,083,986	1,226,582	571	9,432,270	38,531,194
Total interest repricing gap	(6,518,459)	(13,742,882)	760,418	19,327,947	8,808,927	(6,082,799)	2,553,152

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

v) 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	-	-	-	190,780	209,155
Investments securities	-	439,028	90,281	3,648,039	9,402,182	-	13,579,530
Loans and 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	1,994,493	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	5,982,189	674,232	7,433,565	36,025,984
Total interest repricing gap	-	(14,362,660)	(1,315,273)	13,915,317	10,670,082	(5,439,072)	3,468,394

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 2023 is estimated at Shs 12,536,642,000 (2022: Shs 12,907,004,000) compared to their carrying value of Shs 14,269,036,000 (2022: Shs 13,589,656,000). 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 2023**	**Level 1** **Shs'000**	**Level 2** **Shs'000**	**Level 3** **Shs'000**	**Totals** **Shs'000**
Financial assets at fair value through other comprehensive income	253,818	-	-	253,818
Freehold land and buildings	-	-	121,500	121,500
	253,818	-	121,500	375,818
At 31 December 2022				
Freehold land and buildings	-	-	123,625	123,625

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's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) to comply with the capital requirements set by the Central Bank of Kenya;

(ii) 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; and

(iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's 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 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.

Notes (continued)

4 Financial risk management (continued)

f) Management of capital (continued)

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.

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. Four categories of risk weights (0%, 20%, 35% and 100%) are applied.

Notes (continued)

4 Financial risk management (continued)

f) Management of capital (continued)

	2023 Shs'000	2022 Shs'000
Tier 1 capital		
Share capital	2,198,501	2,198,501
Share premium	1,277,355	1,277,355
Retained earnings	996,150	977,802
Less: Deferred tax asset	332,496	-
	4,139,510	4,453,658
Tier 2 capital		
Revaluation reserve	12,508	12,508
Subordinated debt	1,570,000	2,229,730
Regulatory reserve	181,790	439,443
Total regulatory capital	5,903,809	7,132,438
Risk weighted assets	37,666,591	35,155,429
Total deposit liabilities	27,644,767	25,445,385
Core capital/ total deposits liabilities (Minimum: 8.0%)	15.0%	17.5%
Core capital/total risk weighted assets (Minimum: 10.5%)	11.0%	12.7%
Total capital/ total risk weighted assets (Minimum: 14.5%)	15.7%	20.3%

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

5 Interest income

	Group 2023 Shs'000	Group 2022 Shs'000	Bank 2023 Shs'000	Bank 2022 Shs'000
Loans and advances to customers	3,846,032	3,024,124	3,846,032	3,024,124
Financial assets at amortised cost	1,641,548	1,483,394	1,640,311	1,482,456
Deposits with other banks	32,391	10,925	32,391	10,925
	5,519,971	4,518,443	5,518,734	4,517,505
Portfolio analysis				
Interest on financial assets held at amortised cost	5,519,971	4,518,443	5,518,734	4,517,505

Notes (continued)

6 Interest expense

	Group and Bank 2023 Shs'000	Group and Bank 2022 Shs'000
Deposits from customers	1,760,207	1,467,047
Deposits from banks	699,107	615,944
Borrowings (Note 28)	774,352	573,086
Interest expense on lease liabilities (Note 29)	85,579	86,610
	3,319,245	2,742,687

7 Net fee and commission income

	Group		Bank	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
Ledger fees and commissions	32,098	37,258	32,098	37,258
Credit fees and commissions	430,602	477,356	430,602	477,356
Transaction based fees income	512,026	443,973	512,026	443,973
Insurance premium commissions	114,322	107,466	-	-
Fee and commission income	1,089,048	1,066,053	974,726	958,587
Fee and commission expense	(6,381)	(4,363)	(6,381)	(4,202)
Net fee and commission income	1,082,667	1,061,690	968,345	954,385

8 Net trading income

	Group and Bank 2023 Shs'000	Group and Bank 2022 Shs'000
Foreign exchange income	276,239	244,390
Debt securities income	25,346	152,506
	301,585	396,896

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	
	2023	2022	2023	2022
Statement of profit or loss:	Shs'000	Shs'000	Shs'000	Shs'000
Charge for the year:				
- Loans and advances to customers (Note 19)	1,359,616	607,157	1,359,616	607,157
- Deposits with other banks (Note 17)	30,689	2,273	30,689	2,273
- Other assets and prepayments (Note 20)	7,789	2,335	3,718	-
- Recoveries	(22,726)	(34,752)	(22,475)	(34,450)
	1,375,368	577,013	1,371,548	574,980

10 Other operating (loss)/ income

Gain on disposal of property and equipment	643	613	643	613
Sundry (loss)/ income	(4,966)	21,424	(4,966)	21,424
Dividend income	-	-	60,000	50,000
	(4,323)	22,037	55,677	72,037

11 Operating expenses

Operating expenses include the following:

Employee benefits (Note 12)	1,162,650	1,013,610	1,133,243	991,865
Directors' remuneration (Note 35)	76,551	72,599	76,551	72,599
Auditor's remuneration	15,625	11,480	14,905	11,480
Depreciation of property and equipment (Note 21)	116,135	77,235	115,866	77,067
Depreciation of right of use asset (Note 22)	146,601	167,472	146,601	167,472
Amortization of intangible assets (Note 23)	73,955	71,860	73,726	71,064
Other operating expenses	852,939	703,123	843,607	695,293
	2,444,456	2,117,379	2,404,499	2,086,840

Notes (continued)

12 Employee benefits	**Group 2023 Shs'000**	**Group 2022 Shs'000**	**Bank 2023 Shs'000**	**Bank 2022 Shs'000**
Salaries and allowances	933,609	833,115	907,970	814,309
Retirement benefit costs:				
- Defined contribution benefits scheme	58,674	53,422	57,500	52,284
- National Social Security Fund	6,154	1,195	6,023	1,172
Staff medical expenses	78,943	73,422	77,250	72,033
Staff welfare and training expenses	85,270	52,456	84,500	52,067
	1,162,650	1,013,610	1,133,243	991,865

The average number of employees during the year, by category were:	**Group 2023**	**Group 2022**	**Bank 2023**	**Bank 2022**
Management	60	61	59	60
Supervisory	174	184	169	179
Clerical	276	256	271	252
	510	501	499	491

13 Income tax

Income statement	**Group 2023 Shs'000**	**Group 2022 Shs'000**	**Bank 2023 Shs'000**	**Bank 2022 Shs'000**
Current income tax charge	(182,469)	(51,992)	(159,890)	(28,166)
Deferred income tax charge (Note 24)	418,122	(126,801)	417,306	(127,917)
Prior year current income tax charge overstatement	-	12,173	-	12,186
Tax charge for the year	235,653	(166,620)	257,416	(143,897)

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

Profit before income tax	(683,610)	561,987	(695,393)	536,316
Tax at the applicable rate of 30%	205,083	(168,597)	208,618	(160,895)
Expenses not deductible	30,310	(10,196)	48,798	4,812
Prior year current income tax charge overstatement	260	12,173	-	12,186
Tax charge for the year	235,653	(166,620)	257,416	(143,897)

Notes (continued)

13 Income tax (continued)

b) Statement of financial position	Group 2023 Shs'000	Group 2022 Shs'000	Bank 2023 Shs'000	Bank 2022 Shs'000
At start of year	110,410	55,466	105,711	49,656
Income tax expense for the year	(182,469)	(51,992)	(159,890)	(28,166)
Payments during the year	24,318	94,763	1,233	72,035
Prior year current income tax charge overstatement	260	12,173	-	12,186
At end of year	(47,481)	110,410	(52,946)	105,711

14 Earnings per share

There were no potentially dilutive shares outstanding at 31 December 2023 and 31 December 2022. 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 2023	Group 2022
Profit for purposes of basic and diluted earnings per share (in Shs'000)	(447,957)	395,367
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	4,397	4,397
Earnings per share - basic and diluted (Shs)	(101.87)	89.9

15 Cash and bank balances

	Group and Bank 2023 Shs '000	Group and Bank 2022 Shs '000
Cash in hand	859,011	854,636
Balances with Central Bank of Kenya (CBK).		
• Cash reserve ratio balance	743,112	765,922
• Other current accounts	362,484	183,155
	1,105,596	949,077
	1,964,607	1,803,713

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 2023, the cash reserve ratio requirement was 4.25% of eligible deposits (2022: 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	
	2023	2022
Financial assets held for trading	Shs'000	Shs'000
Derivative financial instruments	42,750	-
Financial liabilities held for trading		
Derivative financial instruments	-	146,595

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
2023			
Currency swap contracts	2,669,000	42,750	-
2022			
Currency swap contracts	4,070,880	-	146,595

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 2023 Shs 000	2022 Shs 000
Maturing within 91 days	525,008	125,884
Maturing over 91 days	850,770	86,104
	1,375,778	211,988
Provision for expected credit losses	(33,522)	(2,833)
	1,342,256	209,155

Movement of provision for expected credit losses

	2023 Shs 000	2022 Shs 000
At start of year	2,833	560
Charge to profit or loss during the year	30,689	2,273
At end of year	33,522	2,833

The weighted average effective interest rate for deposits due from banking institutions at 31 December 2023 was 5.1% (2022: 3.3%).

18 Investment securities

	Group 2023 Shs 000	Group 2022 Shs 000	Bank 2023 Shs 000	Bank 2022 Shs 000
Financial assets at fair value through other comprehensive income				
Government securities	253,818	-	253,818	-
Financial assets at amortised cost				
Government securities:				
Maturing within 91 days of date of acquisition	2,115,857	439,028	2,105,722	439,028
Maturing over 91 days of date of acquisition	12,153,179	13,060,347	12,153,180	13,050,221
Corporate bonds:				
Maturing over 91 days of date of acquisition	-	90,281	-	90,281
	14,522,854	13,589,656	14,512,720	13,579,530

The weighted average effective interest rate for treasury investments at 31 December 2023 was 12.0% (2022: 12.5%). At 31 December 2023, the Bank had pledged treasury bonds amounting to Shs 286 million (2022: Shs 286 million) to East Africa Development Bank (EADB) as collateral for borrowings as well as pledged treasury bonds amounting to Sh 2,736 million (2022: Sh 3,611 million) to the Central Bank of Kenya as collateral for CBK Repo borrowings.

Notes (continued)

19 Loans and advances to customers

	Group and Bank	
	2023	**2022**
	Shs'000	**Shs'000**
Term loans	22,635,991	22,238,714
Overdrafts	2,428,282	2,264,681
Credit cards	53,819	56,781
Gross loans and advances	25,118,092	24,560,176
Provisions for expected credit losses	(1,895,937)	(658,196)
Net loans and advances	23,222,155	23,901,980

Analysis of gross loans and advances by maturity

	2023 Shs'000	2022 Shs'000
Maturing within one year	6,011,307	6,313,819
Between one and five years	17,736,845	16,304,226
Over five years	1,369,940	1,942,131
	25,118,092	24,560,176

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

	2023 Shs'000	2022 Shs'000
At start of year	658,196	1,049,708
Charge to profit or loss (Note 9)	1,359,616	607,157
Interest on stage 3 loans	(337,302)	(182,061)
Write - offs during the year	(22,021)	(807,354)
Interest in suspense	237,448	(9,254)
At end of year	1,895,937	658,196

The aggregate amount of non-performing advances was Shs 4,786,442,000 (2022: Shs 2,880,047,000) against which provisions of Shs 1,101,556,000 (2022: Shs 458,558,000) have been made leaving a net balance of Shs 3,684,629,000 (2022: Shs 2,421,489,000) 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 2023 was 14.6% (2022: 13.0%).

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	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
Prepayments	42,029	63,248	42,029	34,602
Items in the course of collection	57,351	50,235	57,351	50,235
Due from subsidiary (Note 35)	-	-	41,359	24,572
Prepaid staff loan benefits	216,328	115,715	216,328	115,715
Mpesa balances receivable	842,848	698,759	842,848	698,759
Other receivables	396,119	367,779	360,181	367,779
Provision for expected credit losses	(20,215)	(15,784)	(16,144)	(15,784)
	1,534,460	1,279,952	1,543,952	1,275,878

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

	Group		Bank	
	2023	2022	2023	2022
	Shs '000	Shs '000	Shs '000	Shs '000
At start of year	15,784	48,399	15,784	47,376
Charged to profit or loss (Note 9)	7,789	2,335	3,718	-
Write-off	(3,358)	(34,950)	(3,358)	(31,592)
At end of year	20,215	15,784	16,144	15,784

Notes (continued)

21 Property and equipment

Group	**Freehold land and buildings Shs'000**	**Furniture & fittings Shs'000**	**Motor vehicles Shs'000**	**Office equipment & computers Shs'000**	**Leasehold improvements Shs'000**	**Total Shs'000**
Year ended 31 December 2023						
Cost or valuation						
At start of year	130,000	162,162	20,106	881,885	628,065	1,822,218
Additions	-	11,523	-	57,156	30,481	99,160
Disposals	-	(4,814)	(1,350)	(24,145)	(18,257)	(48,566)
At end of year	130,000	168,871	18,756	914,896	640,289	1,872,812
Depreciation						
At start of year	6,375	126,412	15,481	625,708	494,525	1,268,501
Charge for the year	2,125	12,593	1,338	70,566	29,513	116,135
Disposals	-	(4,663)	(1,350)	(24,111)	(18,246)	(48,370)
At end of year	8,500	134,342	15,469	672,163	505,792	1,336,266
Net carrying amount						
At end of year	121,500	34,527	3,288	242,734	134,497	536,546
Year ended 31 December 2022						
Cost or valuation						
At start of year	130,000	156,008	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

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 2023						
Cost or valuation						
At start of year	130,000	162,110	20,106	880,728	628,064	1,821,008
Additions	-	11,484	-	57,053	30,481	99,018
Disposals	-	(4,804)	(1,350)	(23,914)	(18,256)	(48,324)
At end of year	130,000	168,790	18,756	913,867	640,289	1,871,702
Depreciation						
At start of year	6,375	126,372	15,481	625,103	494,526	1,267,857
Charge for the year	2,125	12,584	1,338	70,306	29,513	115,866
Disposals	-	(4,653)	(1,352)	(23,876)	(18,247)	(48,127)
At end of year	8,500	134,303	15,467	671,533	505,792	1,335,595
Net carrying amount						
At end of year	121,500	34,487	3,289	242,334	134,497	536,107
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 carrying amount						
At end of year	123,625	35,738	4,625	255,625	133,538	553,151

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	
	2023	**2022**
	Shs'000	**Shs'000**
Cost	77,151	77,151
Accumulated depreciation	(44,798)	(42,919)
At end of year	32,353	34,232

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	
	2023	**2022**
	Shs'000	**Shs'000**
At start of year	624,548	748,915
Additions	132,506	88,492
Amortisation to profit or loss (Note 11)	(146,630)	(167,472)
Adjustment due to changes in cash flows	23,574	(45,387)
At end of year	633,998	624,548

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 2023			
Cost			
At start of year	889,989	9,310	899,299
Additions	55,694	12,702	68,396
Transfers from WIP	8,696	(8,696)	-
At end of year	954,379	13,316	967,695
Amortisation			
At start of year	730,517	-	730,517
Charge for the year	73,955	-	73,955
At end of year	804,472	-	804,472
Net carrying amount			
At end of year	149,907	13,316	163,223
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

Notes (continued)

23 Intangible assets (Continued)

Bank	**Computer software Shs'000**	**Work In Progress Shs'000**	**Total Shs'000**
Year ended 31 December 2023			
Cost			
At start of year	883,489	9,310	892,799
Additions	51,825	12,702	64,527
Transfers from WIP	8,696	(8,696)	-
At end of year	944,010	13,316	957,326
Amortisation			
At start of year	724,313	-	724,313
Charge for the year	73,726	-	73,726
At end of year	798,039	-	798,039
Net carrying amount			
At end of year	145,971	13,316	159,287
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

Notes (continued)

24 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2022: 30%). The gross movement on the deferred income tax account is as follows:

	Group		Bank	
	2023	**2022**	**2023**	**2022**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year	363,556	490,357	362,390	490,307
Charge to profit or loss (Note 13)	418,122	(126,801)	417,306	(127,917)
At end of year	781,678	363,556	779,696	362,390

The deferred income tax is attributable to the following:

Group **Year ended 31 December 2023**	**1 January 2023** **Shs '000**	**Profit or loss** **Shs '000**	**31 December 2023** **Shs '000**
Property and equipment	(22,617)	(381)	(22,998)
Other temporary differences	(296,922)	(411,691)	(708,613)
Right-of-use assets/liabilities	(44,017)	(6,050)	(50,067)
Net deferred income tax asset	(363,556)	(418,122)	(781,678)

Group **Year ended 31 December 2022**	**1 January 2022** **Shs '000**	**Profit or loss** **Shs '000**	**31 December 2022** **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)

Notes (continued)

24 Deferred income tax (continued)

Bank	**1 January 2023**	**Profit or loss**	**31 December 2023**
Year ended 31 December 2023	**Shs '000**	**Shs '000**	**Shs '000**
Property and equipment	(22,458)	(712)	(23,170)
Other temporary differences	(295,915)	(410,545)	(706,460)
Right of use assets/liabilities	(44,017)	(6,049)	(50,066)
Net deferred income tax asset	(362,390)	(417,306)	(779,696)

Bank	**1 January 2022**	**Profit or loss**	**31 December 2022**
Year ended 31 December 2022	**Shs '000**	**Shs '000**	**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)

25. Deposit from banks

	Group and Bank	
	2023	**2022**
	Shs'000	**Shs'000**
Due to Central Bank of Kenya (CBK)	1,803,859	2,497,525
Due to local banks	988,976	813,284
	2,792,835	3,310,809

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 2023 was 10.8% (2022: 5.2%). The CBK Repo borrowing is secured by Treasury Bonds (Note 18).

Notes (continued)

26 Deposits from customers

Group	Group 2023 Shs'000	Group 2022 Shs'000	Bank 2023 Shs'000	Bank 2022 Shs'000
Call and fixed deposits	15,361,229	15,153,264	15,361,229	15,153,264
Current and demand accounts	9,403,728	7,411,851	9,432,270	7,432,943
Savings accounts	2,851,268	2,859,177	2,851,268	2,859,178
	27,616,225	25,424,292	27,644,767	25,445,385
Analysis of deposits from customers by maturity:				
Payable within one year	27,431,201	24,377,580	27,459,743	24,398,672
Between one year and five years	185,024	1,046,712	185,024	1,046,713
	27,616,225	25,424,292	27,644,767	25,445,385

Included in 'deposits from customers' were deposits of Shs 2,481,785,430 (2022: Shs 2,174 001,000) 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 2023 was 11.9% (2022: 10.0%).

27 Other payables and accrued expenses

	Group 2023 Shs'000	Group 2022 Shs'000	Bank 2023 Shs'000	Bank 2022 Shs'000
Items in the course of collection	33,542	35,571	33,542	35,571
Other payables and accrued expenses	644,254	483,474	616,127	464,313
	677,796	519,045	649,669	499,884

Notes (continued)

28 Borrowings

	Group and Bank	
	2023	**2022**
	Shs'000	**Shs'000**
Aqua for All	4,523	4,217
East Africa Development Bank (EADB)	405,017	499,741
EMF Microfinance Fund	1,574,094	1,230,798
Oikocredit Ecumenical Development Co-operative Society U.A (Oikocredit)	2,473,486	979,568
The Investment Fund for Developing Countries (IFU)	-	1,643,995
The Netherlands Development Finance Company (FMO)	703,785	1,101,845
Triodos Investment Management	1,575,133	1,233,858
WaterEquity	1,357,554	575,768
	8,093,592	7,269,790

The borrowings are repayable as follows:

On demand	6,518,459	499,741
Within one year	533,004	781,660
Between one to five years	1,042,129	5,314,156
After five years	-	674,233
	8,093,592	7,269,790

The movement in borrowings is as summarised below:

At start of year	7,269,790	7,618,251
Additions during the year	2,337,425	63,425
Repayments during the year	(4,447,782)	(1,541,961)
Accrued interest (Note 6)	774,352	573,086
Loss from derecognition of financial liabilities	444,442	-
Currency translation difference	1,715,365	556,988
At end of year	8,093,592	7,269,790

The weighted average effective interest rate on the borrowings as at 31 December 2023 was 10.01% for LCY loans and 8.29% for FCY loans (2022: 10.07% for LCY and 7.04% 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.

The EMF Microfinance fund, AGmvK, loan of USD 10 million was received in December 2021 at an interest rate of 6.15% plus six month SOFR rate p.a effective June 2023 (Previously plus six month LIBOR rate) repayable over a period of 7 years. The loan qualifies as tier II capital being a subordinated loan.

Additional OikoCredit USD 10 Million at an interest rate of 7.5% p.a with a tenure of 5 years was received in August 2023. Total loan received from the partnership with OikoCredit is USD 19 Million. The interest is repayable semi-annualy with a 1 year grace period for payment of first principal instalment. The loan is for on-lending to Micro and SME segments.

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 SOFR rate p.a. repayable year over a period of 5 years. 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; USD 5 million in October 2021 and USD 5 million and November 2021 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.

Additional term loan of USD 5 million was received from Water Equity in May 2023 at an interest rate of 7.03% p.a. The loan has a tenor of 4 years with interest repayable semi-annually. A term loan of KES 564 Million was received from in December 2021 at an interest rate of 10.85% p.a. The loan has a tenor of 5 years with interest payable semi-annually. The loan is for on-lending to the WASH sector under COVID-19 response WASH loan product.

The Bank was in breach of the Portfolio at Risk ratio for the EADB facility, the Open Asset Exposure ratio for the FMO facility, the Operational Self-Sufficiency ratio for the OikoCredit facility and the Return on Assets covenants for the Water Equity and Enabling Capital facilities as at 31 December 2023. The respective Lenders have not recalled, renegotiated or varied their lending terms after year end.

Repayment of IFU Loan

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 had a 7-year tenure, 2-year grace period for payment of interest. The loan had an option to convert the outstanding loan into ordinary shares within 5 years of the first draw down as well as an option for the Bank to repay the loan in full prior to maturity subject to the Bank providing IFU with a minimum internal rate of return (IRR). The loan qualified as tier II capital being a subordinated loan.

The Bank exercised its option to early repay the loan in 2023. Consequently, the Bank incurred a loss of KES 444 million being the additional payment to IFU to achieve the agreed IRR. The incurred loss was classified as a loss from derecognition of financial liabilities.

Notes (continued)

29 Lease liabilities

	Group and Bank 2023 Shs'000	2022 Shs'000
Expected to be settled within 12 months after the year end	94,370	158,770
Expected to be settled more than 12 months after the year end	706,519	612,502
	880,889	771,272

The total cash outflow for leases in the year was:

	2023 Shs'000	2022 Shs'000
Payments of principal portion of the lease liability	220,893	259,145
Interest paid on lease liabilities	85,578	86,610
	306,471	345,755

	2023 Shs'000	2022 Shs'000
At start of year	771,272	929,766
Additions	132,506	88,492
Interest on lease liabilities (Note 6)	85,578	86,610
Lease payments	(220,893)	(271,324)
Adjustment due to changes in cash flows	32,426	(62,272)
At end of year	800,889	771,272

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	
	2023	**2022**
	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 2023	4,397,002	2,198,501	1,277,355
Issue of shares	-	-	-
At 31 December 2023	4,397,002	2,198,501	1,277,355
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 31 December 2023 the authorised share capital comprised 5,000,000 ordinary shares of Shs.500 each (2022: 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	
	2023	2022
	Shs'000	Shs'000
At start of year	638,113	588,439
Transfer from retained earnings	(456,323)	49,674
At end of year	181,790	638,113

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 IFRS Accounting 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	
	2023	2022
	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	**2023**	**2022**
	Shs'000	**Shs'000**
(Loss)/profit before income tax	(683,610)	561,987
Adjustments for:		
Depreciation of property and equipment (Note 21)	116,135	77,235
Amortisation of right of use of asset (Note 22)	146,630	167,472
Amortisation of intangible assets (Note 23)	73,955	71,860
Interest on borrowings (Note 28)	774,352	573,086
Foreign exchange loss on borrowing (Note 28)	1,715,365	556,989
Loss from derecognition of financial liabilities (Note 28)	444,442	-
Revaluation gain of investment securities at FVTPL	(189,345)	-
Interest expense on lease liabilities (Note 29)	85,578	86,610
Gain on disposal of property and equipment (Note 10)	(643)	(613)
Operating profit before changes in operating assets and liabilities	3,014,912	2,094,626
Changes in operating assets and liabilities:		
- Mandatory reserves with the Central Bank of Kenya	22,810	570,938
- Loans and advances to customers	679,825	(1,360,829)
- Other assets and prepayments	(294,485)	333,545
- Deposits from customers	2,191,933	(406,139)
- Balances due to banking institutions	(1,251,951)	1,576,348
- Other payables and accrued expenses	158,754	117,156
Cash generated from operations	3,989,745	2,925,645

Bank		
(Loss)/profit before income tax	(695,392)	536,316
Adjustments for:		
Depreciation on property and equipment (Note 21)	115,866	77,067
Amortisation on right of use of asset (Note 22)	146,630	167,472
Amortisation of intangible assets (Note 23)	73,726	71,064
Interest on borrowings (Note 28)	774,352	573,086
Foreign exchange loss on borrowing (Note 28)	1,715,365	556,989
Loss from derecognition of financial liabilities(Note 28)	444,442	-
Revaluation gain of investment securities at FVTPL	(189,345)	-
Interest expense on lease liabilities (Note 29)	85,578	86,610
Gain on disposal of property and equipment (Note 10)	(643)	(613)
Operating profit before changes in operating assets and liabilities	2,468,901	2,067,991
Changes in operating assets and liabilities:		
- Mandatory reserves with the Central Bank of Kenya	22,810	570,938
- Loans and advances to customers	679,825	(1,360,829)
- Other assets and prepayments	(307,548)	321,909
- Deposits from customers	2,199,382	(396,427)
- Balances due to banking institutions	(1,251,951)	1,576,348
- Other payables and accrued expenses	149,787	112,353
Cash generated from operations	3,962,884	2,892,283

Notes (continued)

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

	Group		Bank	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand (Note 15)	862,369	854,636	862,369	854,636
Balances with Central Bank of Kenya excluding mandatory reserves (Note 15)	359,126	183,155	359,126	183,155
Deposits with other banks (Note 17)	525,008	125,884	525,008	125,884
Investment securities maturing within 91 days (Note 18)	2,369,675	439,028	2,359,540	439,028
	4,116,178	1,602,703	4,106,043	1,602,703

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	
	2023	2022
	Shs'000	Shs'000
Pending claims under litigation	96,123	53,132

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	
	2023	2022
	Shs'000	Shs'000
Acceptances and letters of credit	375,838	1,001,159
Guarantees	11,070,338	8,591,213
	11,446,176	9,592,372

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 2023: Shs 22,394,000 (2022: Shs 20,758,000) 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 largest shareholder 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	**2023**	**2022**
	Shs'000	**Shs'000**
a) Staff loans		
At start of year	687,794	707,797
Advanced during the year	196,349	228,137
Interest charged	105,622	87,478
Repayments	(317,990)	(335,618)
At end of year	671,775	687,794

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 2023	At 1 Jan Shs '000	Advances Shs '000	Interest Shs '000	Repayment /Transfer Shs '000	At 31 December Shs '000
			Group and Bank		
KWA Multipurpose Co-operative Society	789	-	30	(819)	-
Directors and their associates	24,158	6,000	3,712	(11,148)	22,722
Zohari Leasing Limited	186,602	88,149	27,730	(53,914)	248,567
Sabis International School	328,082	-	49,657	(123,527)	254,212
Tribus TSG	14,013	-	799	(5,795)	9,017
Pioneer General Insurance Ltd	-	170,000	14,235	(37,347)	146,888
	553,644	264,149	96,163	(232,550)	681,406

Year ended 31 December 2022					
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

Loans and advances to related parties are at commercial rates. The loans have an average tenor of 5 years (2022: 5 years).

ii) Investment securities

Year ended 31 December 2023	At 1 Jan Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	At 31 December Shs '000
			Group and Bank		
Centum Real Estate	90,281	-	9,719	(100,000)	-

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	80,117	-	10,164	-	90,281

iii) Deposits from related parties

	Group and Bank	
	2023 Shs'000	2022 Shs'000
Ace Nairobi One Limited	1,242	1,246
Sabis International School Runda	12,208	6,846
Athena Properties Limited	2	61
Centum Investment Company Plc	267,577	178,398
Greenblade Growers Limited	28	56
KWA Multipurpose Society	-	1,277
KWA Multipurpose Limited	-	13
Longhorn Publishers Limited	264	268
Makao Mashinani Limited	-	3,036
Nabo Capital Limited	308	522,379
Tribus TSG Limited	19,475	35,730
Two Rivers Development Limited	2,956	705
Two Rivers Property Owners Company Limited	294	656
Two Rivers Theme Park Ltd	224	214
Two Rivers Water & Sanitation Company Limited	6,154	1,309
Uhuru Heights Limited	705	953
Vipingo Development Limited	98,971	1,442
Zohari Leasing Limited	39	2,609
Jafari Credit Limited	21,959	9,616
Pioneer Assurance Co Limited	144,372	-
	576,778	766,814

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 the significant influence and control exercised by their common holding company K-Rep Group Limited ("K-Rep Group")". K- Rep Group and KWA Multipurpose Co-operative Society were shareholders of the Bank and sold their shares in 2023. Centum Investment Company Plc ("Centum") and Pioneer Life Investments Limited ("Pioneer") are shareholders of the Bank. The rest of the entities disclosed above are Centum or Pioneer affiliated companies.

iv) Related party balances

	Bank	
	2023 Shs'000	2022 Shs'000
Due from Sidian Bancassurance Intermediary Limited (Note 20)	41,359	24,572

Notes (continued)

35 Related party transactions (continued)

v) Investment in Subsidiary

	Bank	
	2023	**2022**
	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	
	2023	**2022**
	Shs'000	**Shs'000**
K-Rep Group Limited	24,944	23,992
Two Rivers Lifestyle Centre Limited	6,171	8,770
	31,115	32,762

vii) Senior management remuneration

Short term benefits	152,211	144,074
Post-employment benefits	11,394	10,685
	163,605	154,759

viii) Directors' remuneration

Executive director	64,015	58,372
Non-Executive director fees and allowances	12,536	14,227
	76,551	72,599

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