2023

MIDDLE EAST BANK KENYA

ANNUAL REPORTS AND FINANCIAL STATEMENTS

Mission

Dedicated to providing value-added solutions for our clients' financial needs.

Vision

To be the premier financial services provider of choice in our target markets within Kenya and the region.

Core Values

Putting the customer first in everything we do while striving to not only meet but also exceed customers´ expectations (CUSTOMER FOCUS)

Listening and seeking to understand our customer´s needs in order to «get it right the first time» (LISTENING)

Upholding the highest level of professionalism and integrity in our interactions with all stakeholders (PROFESSIONALISM)

Working as a Team with respect for each others´ input and divergent views (TEAMWORK)Being a responsible Corporate Citizen (CSR)

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BANK INFORMATION

BOARD OF DIRECTORS:

Akber A K Esmail - Chairman
Isaac Mwige - Managing Director
Nancy Kaminchia - Resigned on 15 December 2023

Thomas Mulwa
Faith Kibowen
Titus Ibui
Dhiren Rana

COMPANY SECRETARY:

Zainash Registrars
1st Floor, Pacis Centre
Off Waiyaki Way, Westlands
P.O Box 349 - 00606
Nairobi, Kenya

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS:

MEBank Tower
Milimani Road
P.O Box 47387 - 00100
Nairobi, Kenya
Tel: 0111183000
Email:ho@mebkenya.com
Website: www.mebkenya.com

AUDITORS:

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

BRANCHES:

Milimani Road Branch
Mebank Tower
Milimani Road
P.O Box 47387 - 00100
Nairobi, Kenya

Industrial Area Branch
Butere Road
Off Dar es Salaam Road
P.O Box 18973 - 00400
Nairobi, Kenya

Nkrumah Road Branch
Nkurumah Road
P.O Box 90343 - 80100
Mombasa, Kenya

Eldoret Branch
Ronald Ngala Street
P.O Box 7847 - 30100
Eldoret, Kenya

BOARD AUDIT COMMITTEE

F Kibowen - Chairperson
N Kaminchia
T Mulwa
T Ibui
D Rana

BOARD CREDIT COMMITTEE

T Mulwa - Chairman
A A K Esmail
T Ibui
D Rana

BOARD RISK & COMPLIANCE COMMITTEE

N Kaminchia - Chairperson
A A K Esmail
T Ibui
D Rana

MANAGEMENT CREDIT COMMITTEE

Managing Director - Chairman
Head, Credit
Head, Corporate

SENIOR MANAGEMENT & ICT STEERING COMMITTEES

I Mwige - Managing Director (Senior Management Committee only)
P Mwai - Head, Finance & Strategy
F Chumo - Head, Governance
M Gitahi - Head, Internal Audit
E Omolo - Head, Compliance
C Mbela - Head, Corporate
J Ndwiga - Head, Institutional Banking
J Muchangi - Head, Treasury
G Settim - Head, ICT
E Ong'are - Manager, Credit

ASSETS & LIABILITIES COMMITTEE

Managing Director - Chairman
Head, Treasury
Head, Finance & Strategy
Head, Credit
Head, Operations
Head, Corporate
Head, Institutional Banking
Head, Compliance
Head, Governance

RISK MANAGEMENT COMMITTEE

Managing Director - Chairman
Head, Finance & Strategy
Head, Compliance
Head, Internal Audit
Head, Operations
Head, Credit
Head, Admin
Head, Human Resources
Head, ICT
Head, Governance

Meetings of the Board of Directors and Committees of the Board in 2023

Board of Directors Meetings in 2023

The Board of Directors held five ordinary meetings in 2023

DIRECTOR	JANUARY SPECIAL BOARD 2023	MARCH 2023	JUNE 2023	SEPTEMBER 2023	DECEMBER 2023
A A K Esmail	√	√	√	√	√
I Mwige	√	√	√	√	√
D Rana	√	√	√	√	x
N Kaminchia	√	√	√	√	√
T Ibui	√	√	√	√	√
T Mulwa	√	√	√	x	√
F Kibowen	√	√	√	√	√

Board Audit Committee Meetings in 2023

The Board Audit Committee held four meetings in 2023

DIRECTOR	MARCH 2023	MAY 2023	SEPTEMBER 2023	DECEMBER 2023
F Kibowen	√	√	√	√
N Kaminchia	√	√	√	√
T Ibui	√	√	√	√
T Mulwa	√	√	√	√
D Rana	√	√	√	√
I Mwige*	√	√	√	√

Board Risk and Compliance Committee Meetings in 2023

The Board Risk and Compliance Committee held four meetings in 2023

DIRECTOR	FEBRUARY 2023	MAY 2023	AUGUST 2023	DECEMBER 2023
N Kaminchia	√	√	√	√
T Ibui	√	√	√	√
A A K Esmail	√	√	√	√
D Rana	√	√	√	√
I Mwige	√	√	√	√

Board Credit Committee Meetings in 2023

The Board Credit Committee held seven meetings in 2023

DIRECTOR	FEBRUARY 2023	SPECIAL - APRIL 2023	SPECIAL - MAY 2023	SPECIAL - MAY 2023	JUNE 2023	SEPTEMBER 2023	NOVEMBER 2023
A A K Esmail	√	√	√	√	√	√	√
D Rana	√	√	√	x	√	√	√
T Ibui	√	√	x	x	√	√	√
T Mulwa	√	√	x	√	√	√	√
I Mwige	√	√	√	√	√	√	√

√ Attended Meeting x Absent from meeting with apology

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the 43rd Annual General Meeting of the Bank will be held via Zoom, on Thursday, 27th June, 2024 at 1.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. **CONSTITUTION OF MEETING**
   To note the receipt of proxies and establish a quorum.

2. **NOTICE**
   To read the notice convening the meeting.

3. **MINUTES**
   To confirm the Minutes of the 42nd Annual General Meeting held on 22nd June, 2023

4. **REPORTS AND FINANCIAL STATEMENTS.**
   To consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31st December, 2023 together with the Director's and Auditor's reports thereon;

5. **DIVIDEND**
   To note the Directors' recommendation that a final dividend amounting to Kshs. 10,000,000/- be paid out of profits for the year ended 31st December 2023.

6. **DIRECTORS**
   In accordance with Article 88 of the Company's Articles of Association, Mr. A. K. Esmail, Mr. Thomas Kimeu Mulwa, Mr. Dhirendra Rana, Mr. Isaac Mwige, Mr. Titus Ibui and Faith Cherotich Kibowen retire from office by rotation, and being eligible, offer themselves for re-election.

7. **AUDITOR**
   To note:

   (i) That the Company's Auditor PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

   (ii) The Auditor's remuneration for the year 2023 and to authorize the directors to fix their remuneration for the year 2024.

8. **ANY OTHER BUSINESS**

To transact any other business of the Annual General Meeting.
BY ORDER OF THE BOARD

ZAINASH REGISTRARS
COMPANY SECRETARY
P.O. BOX 44 – 00606
NAIROBI

DATED AT NAIROBI THIS 27 MAY 2024

NOTES:
A shareholder entitled to attend and vote at the above meeting may appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. A proxy form is attached herewith.

To be valid, a form of proxy must either be lodged with the Company Secretary, 1st Floor, Pacis Centre, Off Waiyaki Way, Westlands, P.O. Box 44, 00606, Nairobi, be posted so as to reach the Company Secretary not later than 1:00 p.m. Wednesday 26thJune 2024 or be emailed to jochoi@ke.rsm-ea.com or tmwangi@ke.rsm-ea.com.

The AGM will be streamed live via a link which shall be provided to all shareholders to enable them participate in the annual general meeting, therefore, all shareholders are requested to send their email address and telephone numbers to the Bank via ho@mebkenya.com in order for the link to be sent to them.

Circulation to:

All Shareholders
All Directors
PricewaterhouseCoopers

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present to you our 43rd Annual Report and Financial Statements for the year ended 31 December 2023.

We started the year with optimism following a successful power transition in the 2022 Kenyan general elections. In the year, the Kenyan government implemented radical fiscal policy changes on taxation, public spending, government operations and public debt management. These radical changes were meant to narrow the fiscal deficit that was under pressure due to low tax yields, rising debt service obligations and spending pressures. The economy was also struggling with low productivity, high unemployment, balance of payment pressures and a cost-of-living crisis. This economic situation was caused by a combination of geopolitical shocks, tight financial markets, climate crisis, global inflation, and public finance management challenges.

Despite this challenging business environment, the Bank's overall financial position is one testament to our resilience and commitment to our strategic goals.

The growing focus on digitization of products and service channels by financial institutions has unfortunately made it faster for cyber fraudsters to move fraud proceeds. Cyber security has therefore inevitably become an increasing concern to most financial institutions as fraudsters become more innovative in developing new technology-enabled schemes to seek financial gain.

The Bank will continue investing in fraud risk management systems as we work closely with regulators, law enforcement, the Kenya Bankers Association and other relevant stakeholders to protect our customers and create awareness.

THE MACROECONOMIC AND OPERATING ENVIRONMENT

Kenya's economic performance strengthened in 2023 despite continued challenges, with real GDP growth accelerating from 4.8% in 2022 to a projected 5% in 2023. The improved growth performance is attributed to a strong rebound in the agriculture sector in 2023 which had faced a persistent and severe drought as well as a moderate growth in the services sector.

In 2024, Fiscal and monetary measures are anticipated to limit domestic demand growth, with real GDP projected to grow at around 4.5% - 5.2%. This growth will be driven partly by private sector investment and recovery in private consumption, which will be supported by reduced inflationary pressures. The current account is also projected to narrow, but Kenya will continue to face challenges related to weak external financing inflows.

In their 2024 Global Economic Prospects release, the World Bank projects that global growth is set to slow further to 2.4% in 2024, amid the lagged and ongoing effects of tight monetary policy, restrictive financial conditions, and feeble global trade and investment. Downside risks to the outlook include an escalation of the recent conflict in the Middle East and associated commodity market disruptions, financial stress amid elevated debt and high borrowing costs, persistent inflation, weaker-than-expected activity in China, trade fragmentation, and climate-related disasters.

World trade growth is projected at 3.3 percent in 2024 and 3.6 percent in 2025, below its historical average growth rate of 4.9 percent. Rising trade distortions and geoeconomic fragmentation are expected to continue to weigh on the level of global trade.

These forecasts are based on assumptions that fuel and non-fuel commodity prices will decline in 2024 and 2025 and that interest rates will decline in major economies. Annual average oil prices are projected to fall by about 2.3 percent in 2024, whereas non-fuel commodity prices are expected to fall by 0.9 percent.

THE BANK'S PERFORMANCE

Our underlying profit before tax for the year was Shs 421 million supported by low levels of impairment, growth in interest income and effect cost control measures.

Interest income grew by 36% to Shs 1.65 billion (2022: Shs 1.22 billion). Non-funded income declined by 26% to Shs 441 million (2022: Shs 596 million).

The profit after tax was Shs 356 million (2022: Shs 403 million).

Total assets closed at Shs 18.85 billion (2022: Shs 12.96 billion). Customer deposits held were Shs 12.48 billion (2022 Shs 9.33 billion), Loans and advances balance grew by 86% to Shs 10.7 billion (2021: Shs 5.8 billion) and Government securities declined by 2% to Shs 4.3 billion (2022: Shs 4.4 billion).

> ***"Interest income grew by 36% to Shs 1.65 billion (2022: Shs 1.22 billion). Non-funded income declined by 26% to Shs 441 million (2022: Shs 596 million)."***

As a Bank, we continue to support the interest of our shareholders while maintaining adequate capital to support the sustainable growth of the business. We remain committed to delivering value to our shareholders as we continue to strengthen our balance sheet and uplift our service delivery to our customers. While we are cautiously optimistic of prospects, especially due to the uncertain landscape that we are currently operating in: I am confident that Bank's strategy will continue to ensure that we can support all of our stakeholders through the challenges and opportunities in the years to come.

CBK RATIOS

The Bank reported strong capital adequacy ratios which continue to be well above the minimum statutory ratios. The Bank's core capital grew by 18% to Shs 2 billion (2022: Shs 1.7 billion) against a minimum capital requirement of Shs 1 billion.

The Bank complied with all other regulatory ratios throughout the year.

DIVIDEND

Based on the Bank's performance, the Board of Directors recommends the payment of a total dividend of Shs 10 million (2022: Shs 10 million) equivalent to 2.8% (2022: 2.5%) of the profit after tax to the shareholders who were on the register of members as at 31 December 2023. This will be subject to shareholders' approval at the forthcoming Annual General Meeting (AGM).

CORPORATE SOCIAL RESPONSIBILITY (CSR)

As part of its CSR activities for 2022, the Bank continued to support various charities, primary and secondary school education of up to 110 top-performing children from financially challenged backgrounds. This is in line with one of the Bank's values "Being a responsible Corporate Citizen". We believe that investing in the youth of Kenya is investing in the future of the country. This is also aligned with the Bank's ESG goals and objectives.

THE BOARD

The Board will persist in its duty of maintaining equilibrium between the opportunities and risks that lie ahead. Our commitment to all stakeholders remains unwavering, and we uphold the utmost standards of corporate governance.

APPRECIATION

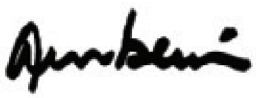
Concluding this message, I reaffirm our Bank's unwavering dedication to seizing the opportunities that will unfold in 2024. We remain steadfast in our pursuit to enhance earnings, bolster profitability, uphold asset quality, and deliver favourable returns to our esteemed shareholders.

I extend heartfelt appreciation, on behalf of the Board, to our shareholders, regulators, business partners, and all external stakeholders, including our valued customers. Your steadfast support is deeply valued and instrumental to our success.

To our Management, dedicated staff, and esteemed colleagues on the Board, I extend profound gratitude for your unwavering diligence, tireless efforts, unwavering passion, and steadfast commitment to realizing our shared objectives. Your collective contributions are integral to our continued advancement.

Warm regards,

Thank you.



AAK ESMAIL
CHAIRMAN

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of Middle East Bank Kenya Limited (the "Bank") for the year ended 31 December 2023.

BUSINESS REVIEW

The Bank is engaged in the business of banking and the provision of related services is licensed under the Banking Act (Cap 488) and is a member of the Kenya Bankers Association.

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

The Bank's performance grew year on year. There was a 22% decline in profit before tax, mainly driven by a decrease in Non-Funded Income. Profit before tax decreased from Shs 544 million to Shs 422 million. Interest income was Shs 1,654 million (2022: Shs 1,216 million) while interest expense was Shs 984 million (2022: Shs 672 million).

The balance sheet grew by 45% from Shs 12.96 billion to Shs 18.85 billion. Customer deposits held were Shs 12.48 billion (2022: Shs 9.33 billion), Loans and advances balances grew by 86% to Shs 10.74 billion (2022: Shs 5.79 billion) and Government securities held were Shs 4.3 billion (2021: Shs 4.42 billion).

The Bank reported strong capital adequacy ratios which continue to be well above the minimum statutory ratios.

The profit for the year of Shs 355,394,000 (2022: Shs 403,307,000) has been added to retained earnings.

RECOMMENDED DIVIDEND

The directors recommend the approval of a final dividend of Shs 0.39 per share (2022: Shs 0.39 per share) amounting to Shs 10,000,000 (2022: Shs 10,000,000).

DIRECTORS

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

A A K Esmail	Chairman
I Mwige	Managing Director
D Rana	
T Mulwa	
F Kibowen	
T Ibui	
N Kaminchia	Resigned on 15 December 2023

In line with Central Bank of Kenya Prudential Guidelines, all directors attended over 75% of board meetings. Evaluation of the directors was through peer and self-evaluation.

STATEMENT AS TO DISCLOSURES TO THE COMPANY'S AUDITORS

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

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

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

TERMS OF APPOINTMENT OF AUDITORS

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

By order of the Board

ZAINASH REGISTRARS
....SECRETARY

Zainash Registrars
Secretary
15 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank keeps proper accounting records that: (a) show and explain the transactions of the Bank; (b) disclose, with reasonable accuracy, the financial position of the Bank; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

ii. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. Selecting suitable accounting policies and then apply them consistently; and

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

Having made an assessment of the ability of the Bank to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the use of going concern basis for preparation of these financial statements.

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

Approved by the Board of Directors on 15 March 2024 and signed on its behalf by:

Isaac Mwige
Director

Akber Esmail
Director

INDEPENDENT AUDITOR'S REPORT

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Middle East Bank Kenya Limited (the Company) set out on pages 15 to 73 which comprise the statement of financial position at 31 December 2023, the statements of comprehensive income, changes in equity, and 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 Middle East Bank Kenya Limited as at 31 December 2023 and of its financial performance and its 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 company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Other information

TThe 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.

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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 Kenyan Companies Act, 2015

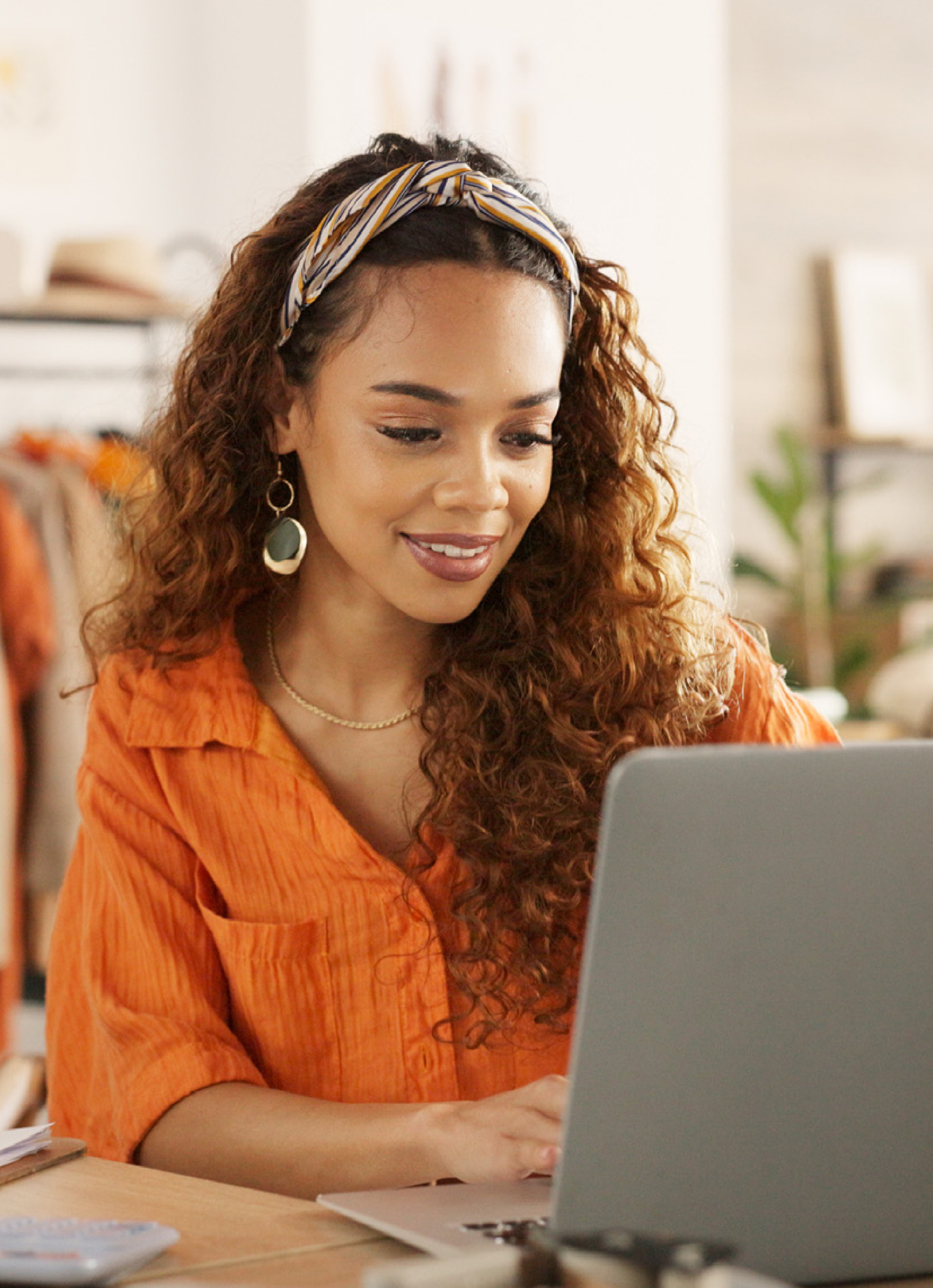
In our opinion the information given in the report of the directors on page 7 to 8 is consistent with the financial statements.

Richard Njoroge

FCPA Richard Njoroge, Practising certificate No. 1244
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

25 March 2024



MIDDLE EAST BANK KENYA LIMITED 2023 FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2023 Shs'000	2022 Shs'000
Interest income	5(a)	1,654,431	1,216,432
Interest expense	5(b)	(984,011)	(671,881)
Net interest income		**670,420**	**544,551**
Fee and commission income		229,746	207,514
Foreign exchange income		173,773	106,748
Other operating income	6	37,600	281,966
Total income		**1,111,539**	**1,140,779**
Credit impairment charges	16	(48,971)	(34,500)
Operating expenses	7	(640,956)	(561,938)
Profit before income tax		**421,612**	**544,341**
Income tax charge for the year	9	(66,218)	(141,034)
Profit for the year		**355,394**	**403,307**
Other comprehensive income		-	-
Total comprehensive income for the year		**355,394**	**403,307**
Basic earnings per share	10	**14.02**	**15.91**

STATEMENT OF FINANCIAL POSITION

	Notes	2023 Shs'000	2022 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,930,087	1,054,585
Deposits and balances due from banking institutions	14	1,054,782	1,094,971
Loans and advances to customers	16	10,742,644	5,788,334
Government securities at amortized cost	13	4,304,250	4,422,569
Other assets and prepayments	15	217,773	158,301
Property and equipment	18	215,737	189,459
Prepaid operating lease rentals	19	68,618	69,583
Right of use assets	20	28,029	7,547
Intangible assets	21	37,465	30,450
Current income tax		92,466	-
Deferred income tax	17	156,452	146,389
Total assets		**18,848,303**	**12,962,188**
LIABILITIES			
Deposits and balances due to banking institutions	22	2,362,322	1,103,334
Deposits from customers	23	12,479,931	9,326,192
Borrowings	24	1,616,864	408,246
Other liabilities and accrued expenses	25	220,844	227,694
Lease liabilities	26	29,572	9,754
Current income tax		-	93,592
Total liabilities		**16,709,533**	**11,168,812**
SHAREHOLDERS' EQUITY			
Share capital	27	506,831	506,831
Regulatory reserve	28	105,011	65,527
Retained earnings		1,526,928	1,221,018
Total shareholders' equity		**2,138,770**	**1,793,376**
Total equity and liabilities		**18,848,303**	**12,962,188**

The financial statements on pages 15 to 73 were approved for issue by the board of directors on 15 March 2024 and signed on its behalf by:

Isaac Mwige
Director

Tom Mulwa
Director

Akber Esmail
Director

Zainash Registrars
Company Secretary

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2022					
At start of year		506,831	23,407	869,831	1,400,069
Total comprehensive income for the year					
Profit for the year		-	-	403,307	403,307
Transfer from regulatory reserve	28	-	42,120	(42,120)	-
Transactions with Owners:					
Final payment of 2021 dividends		-	-	(10,000)	(10,000)
At end of year		506,831	65,527	1,221,018	1,793,376
Year ended 31 December 2023					
At start of year		506,831	65,527	1,221,018	1,793,376
Total comprehensive income for the year					
Profit for the year		-	-	355,394	355,394
Transfer from regulatory reserve	28	-	39,484	(39,484)	-
Transactions with Owners:					
Final payment of 2022 dividends		-	-	(10,000)	(10,000)
		506,831	105,011	1,526,928	2,138,770

STATEMENT OF CASH FLOWS

	Notes	2023 Shs'000	2022 Shs'000
Cash flows from operating activities			
Interest receipts		1,654,431	1,216,432
Interest payments		(956,256)	(671,881)
Fee and commission receipts		229,746	207,514
Foreign exchange receipts		173,773	106,748
Other income received		37,599	281,966
Payments to employees and suppliers		(590,666)	(517,828)
Income tax paid		(262,826)	(95,700)
Cash flows from operating activities before changes in operating assets and liabilities		285,801	527,251
Changes in operating assets and liabilities:			
Gross loans and advances		(4,994,012)	(249,739)
Cash reserve requirement		(127,868)	(21,894)
Other assets and prepayments		(59,472)	(44,260)
Government securities at amortized cost		118,319	(1,062,358)
Customer deposits		3,153,739	(139,234)
Other liabilities and accrued expenses		(6,850)	58,755
Net cash generated from operating activities		(1,630,343)	(931,479)
Cash flows from investing activities			
Purchase of property and equipment	18	(65,281)	(37,164)
Purchase of intangible assets	21	(16,151)	(7,888)
Net cash used in investing activities		(81,432)	(45,052)
Cash flows from financing activities			
Borrowings- Additions	24	1,032,000	407,875
Borrowings- Repayments	24	(85,311)	-
Translation differences on borrowings		234,173	-
Repayment of lease liability	26	(10,631)	(10,002)
Dividends paid	11	(10,000)	(10,000)
Cash used in financing activities		1,160,231	387,873
Net decrease in cash and cash equivalents		(551,544)	(588,658)
Cash and cash equivalents at start of year		690,741	1,279,399
Cash and cash equivalents at end of year	30	**139,197**	**690,741**

1 General information

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

MEBank Tower
Milimani Road
P O Box 47387-00100
Nairobi, Kenya

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

(i) Basis of measurement

The measurement basis applied 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 Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximize the use of relevant observable inputs and minimize 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 ordinarily take into account in an arms-length transaction.

Fair values are categorized 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 used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs);and
- transfers between levels of the fair value hierarchy are recognized by the Bank at the end of the reporting period during which the change occurred

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statement are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The following standards and interpretations have been applied by the Bank for the first time for the financial reporting year commencing on or after 1 January 2023:

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 (Published May 2017	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee ap-proach is a variation on the general model. When apply-ing the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a few proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard.

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policy and disclosures (continued)

(ii) New and amended standards not yet adopted by the Bank (continued)

Number	Effective date	Executive summary
Narrow scope amendments to IAS 1 ‘Presentation of Financial Statements’, Practice statement 2 and IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’	Annual periods beginning on or after 1 January 2023. (Published February 2021)	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, Income Tax-es: Deferred Tax related to Assets and Liabilities aris-ing from a Single Trans-action	Annual periods beginning on or after 1 January 2023. (Published May 2021	The amendments require companies to recognise de-ferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible tempo-rary differences.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023. (Published May 2023	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 have had a significant impact on the financial statements		

(ii) New and amended standards not yet adopted by the Bank

The Bank has not applied the following new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1 January 2023, and the Direc-tors do not plan to apply any of them until they become effective.

Number	Effective date	Executive summary
Amendments to IAS 1 - Non-current liabilities with cove-nants	Annual periods beginning on or after 1 January 2024 (Published January 2020 and November 2022)	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	Annual peri-ods beginning on or after 1 January 2024 (Published Septem-ber 2022)	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.

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policy and disclosures (continued)

(ii) New and amended standards not yet adopted by the Bank (continued)

Number	Effective date	Executive summary
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	Annual periods beginning on or after 1 January 2024 (Published May 2023)	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)	Annual periods beginning on or after 1 January 2025 (Published August 2023)	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 Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, they don't expect a material impact on the Bank's financial statements.

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

(d) Interest income and expense

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

Effective interest rate

Income from Government securities at amortized cost, deposits and balances due from other banking institutions and loans and advances to customers is recognized in profit or loss using the effective interest rate method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability

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

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

Amortized cost and gross carrying amount

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

2 Summary of significant accounting policies (continued)

(d) Interest income and expense (continued)

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

Calculation of interest income

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

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

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

(e) Fees and commissions

Fees and commissions income are generally recognized 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 recognized as an adjustment to the effective interest rate on the loan.

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

(f) Translation of foreign currenciess

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(g) Financial assets and liabilities

Classification and measurement of financial instruments

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and financial assets at amortized cost. Management determines the appropriate classification of its financial assets at initial recognition.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Classification of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

<table>
<tr><th colspan="2">Category (as defined by IFRS 9)</th><th>Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="12"></td><td rowspan="8">Financial assets at amortized cost</td><td>Cash and balances with Central Bank of Kenya</td><td rowspan="3"></td></tr>
<tr><td>Government securities at amortized cost</td></tr>
<tr><td>Deposits and balances due from banking institutions</td></tr>
<tr><td>Borrowings</td><td>Long term borrowings</td></tr>
<tr><td rowspan="4">Loans and advances to customers</td><td>Commercial loans</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td>Personal loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="4">Financial liabilities at amortized cost</td><td>Deposits and balances due to banking institutions</td><td></td></tr>
<tr><td rowspan="3">Customer deposits</td><td>Current accounts and demand deposits</td></tr>
<tr><td>Savings and transaction accounts</td></tr>
<tr><td>Fixed deposit accounts</td></tr>
<tr><td rowspan="3">Off-balance sheet financial Instruments</td><td colspan="3">Acceptances and letters of credit</td></tr>
<tr><td colspan="3">Guarantees and performance bonds</td></tr>
<tr><td colspan="3">Undrawn formal stand-by facilities, credit lines and other commitments to lend</td></tr>
</table>

Initial recognition and measurement

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

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

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Initial recognition and measurement (continued)

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

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized 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 amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets

(i) Classification and subsequent measurement

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

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

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:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 3 (a). Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Debt instruments (continued)

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these 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 amortized 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 recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model

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

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Financial assets (continued)

i) Classification and subsequent measurement (continued)

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

(ii) Impairment

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

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

Note 3 (a) provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether the new terms are substantially different from the original terms. The Bank does this by considering, among others, the following factors:

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

If the terms are substantially different, the Bank 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 Bank also assesses whether the new financial asset recognized 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 recognized in profit or loss as a gain or loss on derecognition.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Financial assets (continued)

iii) Modification of loans (continued)

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

(iv) Derecognition other than on a modification

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

The Bank 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 Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

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

Financial liabilities

(i) Classification and subsequent measurement

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

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

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Financial liabilities (continued)

(i) Classification and subsequent measurement (continued)

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

- Financial guarantee contracts and loan commitments.

(ii) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the 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 an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

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

Financial guarantee contracts and loan commitments

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 recognized in accordance with the principles of IFRS 15.

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

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank 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 recognized 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 recognized as a provision.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(h) Impairment of financial assets

The Bank recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

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

(i) Assets carried at amortized cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

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

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

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(h) Impairment of financial assets (continued)

(i) Assets carried at amortized cost (continued)

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

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

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

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

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

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

Renegotiated loans

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

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

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

2 Summary of significant accounting policies (continued)

(i) Property and equipment

All property and equipment are stated at historical cost less depreciation. Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

- Buildings	50 years
- Leasehold improvements	over the period of the lease
- Fixtures, fittings and equipment	5 -10 years
- Computers software and hardware	3 years
- Motor vehicles	4 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(j) Intangible assets

Costs associated with maintaining computer software programs are recognized 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 Bank are recognized as intangible assets when the following criteria are met:

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

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

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

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

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives. The Core banking Software has a maximum expected useful life of 8 years.

(k) Offsetting

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

(l) Income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax.

(a) Current income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

2 Summary of significant accounting policies (continued)

(l) Income tax (continued)

(b) Deferred income tax

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

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

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

(m) Employee benefits

Retirement benefit obligation

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

(n) Dividends payable

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

(o) Forward foreign exchange contract

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

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

(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) Leases

(i) Leases under which the Bank is the lessee

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

2 Summary of significant accounting policies (continued)

(q) Leases (continued)

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

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

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

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

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

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

(i) Leases under which the Bank is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Bank has not entered into any finance leases.

(r) Cash and cash equivalents

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

(s) Sale and repurchase agreements

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

2 Summary of significant accounting policies (continued)

(t) Share capital

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

(u) Regulatory reserve

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

3 Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

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

3 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments

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

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

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

Measurement of expected credit losses

IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

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

The measurement of the expected credit loss allowance for financial assets measured at amortized 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).

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; and
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities.

Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets

3 Financial risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk

The Bank in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank identifies a significant increase in credit risk where:

- exposures have a regulatory risk rating of 'watch';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 days past due (DPD) rebuttable presumption";
- an exposure has been restructured in the past due to credit risk related factors or which was non-performing and is now regularised (subject to the regulatory cooling off period); or
- by comparing, where information is available, an exposure's:
  - credit risk quality at the date of reporting; with
  - the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Determining whether credit risk has increased significantly

The Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

The Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

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

Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

The following qualitative criteria is applied:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the borrower in providing key relevant documentation; and
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

3 Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

The Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information in its measurement of ECLs.

The Bank applies linear regression to determine the forward-looking adjustment to incorporate in its ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a probability of occurring based on the predictive strength of the relationship between the Bank's default rate and the macro-economic variables (MEV's), and two less likely scenarios, one upside and one downside, each assigned a probability of occurring based on half the difference between the base case and 100%.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Kenya, supranational organisations such as the World Bank and the International Monetary Fund and selected private-sector and academic forecasters.

The Bank has identified key drivers of credit risk and credit losses for its overall portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These are reviewed by management periodically to ascertain relevance based on management's understanding of the current industry environment.

The key drivers for credit risk are GDP, growth in commercial bank loans, exports of goods and services and inflation.

Modified financial assets

The contractual terms of loans and advances may be modified because of a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loans and advances recognized as a new loans and advances at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

The Bank renegotiates loans and advances with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default.

3 Financial risk management (continued)

(a) Credit risk (continued)

Modified financial assets (continued)

Under the Bank's restructuring policy, loans and advances restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. The Bank Credit Committee regularly reviews reports on restructuring activities.

Generally, forbearance is a qualitative indicator of default and credit impairment, and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk (see above).

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of Default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD will be adjusted to reflect forward-looking information as described above.

Probability of default (PD)

Loan listings and the borrower central bank risk classifications from 2016 to date were used as the primary input in the determination of the PD structures.

PD estimates for loans and advances are estimates at a certain date, calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will be assessed at portfolio level for portfolios of assets that have similar characteristics. The Bank has categorised its loans and advances into three segments, real estate, Trade and others.

The PD estimates for other financial instruments assessed for impairment is based on external credit rating information obtained from reputable external rating agencies such as Moody's, Standard and Poors, Fitch and Global credit rating.

The PD estimates applied are probability weighted incorporating a forward-looking adjustment which is determined based on a base scenario, upside and downside scenario. Please see the section on forward-looking information.

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties.

The LGD models consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest rate (EIR) or a close proxy of the EIR.

3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure at Default

EAD represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. For loan commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For guarantee facilities, overdrafts and other revolving facilities that include both a drawn and an undrawn commitment component, the Bank will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined.

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

- Product type; and
- Industry.

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

In measuring expected credit losses the bank has segmented its loans and advances to customers into several segments: Trade, Real Estate and Others based on their different risk characteristics.

The following tables set out information about the credit quality and credit risk exposure of financial assets measured at amortized cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts at 31 December 2023. For loan commitments and non-financial guarantees the amounts in the table represent the undrawn portion of amounts committed. Loan commitments are overdraft facilities.

Maximum exposure to credit risk before collateral held

	2023 Shs'000	2022 Shs'000
Balances with Central Bank of Kenya (Note 12)	1,680,145	881,458
Mobile money balances (Note 12)	79,847	54,153
Government securities at amortized cost (Note 13)	4,304,250	4,422,569
Deposits and balances due from banking institutions (Note 14)	1,054,782	1,094,971
Loans and advances to customers (Note 16)	10,742,644	5,788,334
Other assets (Note 15)	151,250	110,053
Credit risk exposures relating to off-balance sheet items (Note 29):		
- Acceptances and letters of credit	418,148	938,775
- Guarantee and performance bonds	2,409,582	1,146,149
- Commitments to lend	1,821,768	2,531,151
	22,662,416	**16,967,613**

3 Financial risk management (continued)

(a) Credit risk (continued)

The maximum exposure table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2023 and 2022, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet. As shown above, 59% (2022: 46%) of the total maximum exposure is derived from loans and advances to customers, balances with Central Bank of Kenya and deposits and balances from banking institutions. 19% (2022: 26%) represents investments in government securities.

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

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

The Bank exercises stringent controls over the granting of new loans;
- 84% of the loans and advances portfolio are neither past due nor impaired (2022: 79%);
- 86% of the loans and advances portfolio are backed by collateral; and
- 100% of the investments in debt securities are government securities.

Credit risk exposure

Financial assets that are past due or impaired

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

Accounts are classified into five categories as follows

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

Loans and advances are summarised as follows:

	2023 Shs'000	2022 Shs'000
Neither past due nor impaired	8,006,350	4,800,583
Past due but not impaired	977,628	891,457
Impaired	2,097,610	395,536
Gross	11,081,588	6,087,576
Less: allowance for impairment	(338,944))	(299,242)
Net	**10,742,644**	**5,788,334**

3 Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances neither past due nor impaired

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

	2023 Shs'000	2022 Shs'000
Normal – neither past due nor impaired	7,889,174	4,719,540
Normal – renegotiated loans	117,176	81,043
Watch – renegotiated loans (past due but not impaired)	-	333,891
Watch (past due but not impaired)	977,628	557,566
	8,983,978	**5,692,040**

Loans and advances renegotiated

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

	2023 Shs'000	2022 Shs'000
Renegotiated loans and advances	**117,176**	**414,934**

Loans and advances renegotiated in 2023 and 2022 were neither past due nor impaired.

Loans and advances past due but not impaired

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

	2023 Shs'000	2022 Shs'000
Past due up to 30 days	305,660	449,106
Past due 31 - 90 days	420,643	278,516
	726,303	**727,622**

3 Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	Loans		Overdrafts	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Individually assessed impaired loans and advances	1,882,231	189,724	215,379	205,812
Fair value of collateral	2,537,163	360,474	590,618	501,393

The Bank assesses at each reporting date whether there is objective evidence that loans and advances are impaired. Objective evidence that loans and advances are impaired includes observable data that comes to the attention of the Bank about loss events such as significant financial difficulty of the borrower, breach of contract, bankruptcy or other financial re-organisation or local economic conditions that correlate with defaults on the assets in the Bank.

(b) Concentration risk

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

	2023		2022	
	Loans and advances %	Unused credit commitments %	Loans and advances %	Unused credit commitments %
Manufacturing	5.78	5.87	7.05	2.51
Wholesale and retail trade	18.6	21.68	24.84	58.46
Transport and communications	3.02	40.06	4.38	2.88
Business services	0.02	-	0.05	0.5
Agricultural	0.75	-	0.77	0.12
Individuals	6.59	0.48	12.33	16.07
Foreign Trade	0.43	-	3.19	-
Real estate	33.93	30.17	32.37	17.49
Building and construction	4.67	0	7.78	1.97
Other	26.21	1.74	7.24	-
	100	**100**	**100**	**100**

Customer deposits	2023 %	2022 %
Insurance companies	0.22	2.78
Private enterprise	2.10	46.73
Non-profit institutions & individuals	39.40	33.67
Resident foreign currency	25.56	10.42
Non-resident foreign currency	26.79	6.40
	100	**100**

3 Financial risk management (continued)

(c) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. By the very nature of operations, it is unusual for banks to ever match assets and liabilities completely. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio and minimum liquidity ratios. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-Bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The treasury department monitors liquidity ratios on a daily basis, and this is closely reviewed by the Assets and Liability Committee (ALCO).

Exposure to liquidity risk

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

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

	2023	2022
At 31 December	38.5	49.9
Average for the year	46.5	51.1
Maximum for the year	51.7	55.5
Minimum for the year	38.5	45.7

3 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses assets and liabilities into relevant maturity brackets based on the remaining period at 31 December 2023 to the contractual maturity date. All figures are in thousands of Kenya Shillings.

At 31 December 2023	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
Assets						
Cash and balances with Central Bank of Kenya	1,930,086	-	-	-	-	1,930,086
Government securities at amortized cost	43,086	215,428	258,514	2,511,061	6,232,479	9,260,568
Deposits and balances due from banking institutions	1,054,780	-	-	-	-	1,054,780
Other assets	100,455	1,759	72,407	39,227	-	213,848
Loans and advances to customers	4,134,888	1,906,006	560,575	2,731,425	2,055,318	11,388,212
Total assets	**7,263,295**	**2,168,336**	**891,496**	**5,281,713**	**8,287,797**	**23,847,494**
Liabilities and equity						
Deposits from banks customer deposits	2,362,322	-	-	-	-	2,362,322
Deposits from customers	7,276,353	3,817,101	1,557,995	-	-	12,651,449
Borrowings	-	89,832	89,292	3,502,945	-	3,682,069
Lease liability	2,062	3,680	5,277	24,597	-	35,616
Other liabilities and accrued expenses	64,882	1,759	154,202	-	-	220,843
Total liabilities	**9,705,619**	**3,912,372**	**1,806,766**	**3,527,542**	**-**	**18,952,299**
Net on-balance sheet liquidity gap	**(2,442,324)**	**(1,789,179)**	**(915,270)**	**1,754,171**	**8,287,797**	**4,895,195**
Off balance sheet liabilities	**88,055**	**2,438,387**	**484,748**	**113,800**	**-**	**3,124,990**
Overall net liquidity	**(2,530,379)**	**(4,227,566)**	**(1,400,018)**	**1,640,371**	**8,287,797**	**1,770,205**

3 Financial risk management (continued)

(c) Liquidity risk (continued)

At 31 December 2022	Up to 1 Month	1-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
Assets						
Cash and balances with Central Bank of Kenya	1,054,585	-	-	-	-	1,054,585
Government securities at amortized cost	43,086	215,428	258,514	2,727,013	6,533,555	9,777,596
Deposits and balances due from banking institutions	1,094,971	-	-	-	-	1,094,971
Other assets	21,123	14,900	99,932	22,346	-	158,301
Loans and advances to customers	2,395,695	170,294	567,026	2,858,109	912,444	6,903,568
Total assets	4,609,460	400,622	925,472	5,607,468	7,445,999	18,989,021
Liabilities and equity						
Deposits from banks	1,103,334	-	-	-	-	1,103,334
Deposits from customers	4,487,660	3,728,091	1,220,665	43,924	-	9,480,340
Borrowings	-	45,205	45,205	361,640	-	452,050
Lease liability	2,306	1,243	3,203	3,521	-	10,273
Other liabilities and accrued expenses	150,999	16,757	59,938	-	-	227,694
Total liabilities	5,744,299	3,791,296	1,329,011	409,085	-	11,273,691
Net liquidity gap	**(1,134,839)**	**(3,390,674)**	**(403,539)**	**5,198,383**	**7,445,999**	**7,715,330**
Off balance sheet liabilities	**821,288**	**599,967**	**570,343**	**95,974**	**-**	**2,087,572**
Overall net liquidity	**(1,956,127)**	**(3,990,641)**	**(973,882)**	**5,102,409**	**7,445,999**	**5,627,758**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

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

3 Financial risk management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day implementation of those policies.

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

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

	USD	GBP	Euro	Other	Total
At 31 December 2023					
Assets					
Cash and balances with Central Bank of Kenya	741,930	17,554	15,968	34	775,486
Deposits and balances due from banking institutions	315,619	56,469	5,025	837	377,950
Loans and advances to customers	3,529,315	190	334,054	-	3,863,559
Other assets and prepayments	56,884	-	-	-	56,884
Total assets	4,643,748	74,213	355,047	871	5,073,879
Liabilities					
Customer deposits	3,927,101	74,099	81,034	-	4,082,234
Borrowings	1,616,864	-	-	-	1,616,864
Other liabilities and accrued expenses	8,257	207	1,232	-	9,696
Total liabilities	5,552,222	74,306	82,266	-	5,708,794
Net on-balance sheet position	**(908,473)**	**(93)**	**272,781**	**871**	**(634,914)**
Net off-balance sheet position	**278,390**	**-**	**(272,384)**	**-**	**6,006**
Overall net position	**(630,083)**	**(93)**	**376**	**871**	**(628,908)**

3 Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

	USD	GBP	Euro	Other	Total
At 31 December 2022					
Assets					
Total assets	1,543,627	14,402	18,934	125	1,577,088
Total liabilities	1,914,936	59,747	17,615	-	1,992,298
Net on-balance sheet position	**(371,309)**	**(45,345)**	**1,319**	**125**	**(415,210)**
Net off-balance sheet position	**1,313**	**-**	**(1,314)**	**-**	**(1)**
Overall net position	**(369,996)**	**(45,345)**	**5**	**125**	**(415,211)**

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

At 31 December 2023, if the Shilling had strengthened/weakened by 5% against the major currencies with all other variables held constant, pre-tax profit for the year would have been lower/higher by Shs 31,746,000 (2022: Shs 16,369,000) as illustrated below:

Impact on shilling strengthening per currency (Shs '000)

	USD	GBP	Euro	Other	Total
At 31 December 2023 (5%)	(45,424)	(5)	13,639	44	(31,746)
At 31 December 2022 (5%)	18,565	(2,267)	65	6	16,369

(ii) Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

3 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities in terms of carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

At 31 December 2023	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Non-interest bearing	Total
Assets						
Cash and Balances with Central Bank of Kenya	-	-	-	-	1,930,086	1,930,086
Government securities at amortized cost	122,078	-	444,950	3,737,222	-	4,304,250
Deposits and balances due from banking institutions	379,220	675,560	-	-	-	1,054,780
Other assets and prepayments	-	-	-	-	151,250	151,250
Loans and advances to customers	10,742,644	-	-	-	-	10,742,644
Total assets	**11,243,942**	**675,560**	**444,950**	**3,737,222**	**2,081,336**	**18,183,010**
Liabilities						
Deposits from banks	2,362,322	-	-	-	-	2,362,322
Customer deposits	4,662,103	2,652,230	2,575,355	1,001	2,589,242	12,479,931
Borrowings	-	71,675	49,444	1,495,745	-	1,616,864
Other liabilities and accrued expenses	-	-	-	-	220,844	220,844
Lease liabilities	-	3,521	17,124	8,927	-	29,572
Total liabilities	**7,024,425**	**2,727,426**	**2,641,923**	**1,505,673**	**2,810,086**	**16,709,533**
Interest sensitivity gap	**4,219,517**	**(2,051,866)**	**(2,196,973)**	**2,231,549**	**(728,750)**	**1,473,477**

3 Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2022	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Non-interest bearing	Total
Total assets	7,069,764	-	124,241	4,111,868	1,212,886	12,518,759
Total liabilities	2,611,908	3,773,296	1,265,870	379,876	3,146,223	11,177,173
Interest sensitivity gap	**764,775**	**(2,964,382)**	**(472,952)**	**5,947,482**	**(1,933,337)**	**1,341,586**

Fair values and effective interest rates of financial assets and liabilities

The effective interest rates by major currency for monetary financial instruments at 31 December 2023 and 2022 were in the following ranges:

	2023		2022	
	Shs	USD and Euro	Shs	USD and Euro
Assets				
Government securities (%)	12.47	-	12.19	-
Deposits with banking institutions (%)	12.12	5.91	6.29	2.47
Loans and advances to customers (%)	14.43	12.78	13.71	10.47
Liabilities				
Customer deposits (%)	8.70	3.43	7.73	2.59
Deposits and balances due to banking institutions (%)	12.89	6.46	6.60	2.07
Borrowings (%)	-	5.19	-	3.46

Cash flow and fair value interest rate risk

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

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

The Bank regularly monitors financial assets and liabilities. As at 31 December 2023, a 100 basis points increase in interest rates would have resulted in an increase in pre-tax profit of Shs 22,021,970 (2022: Shs 32,749,230).

3 Financial risk management (continued)

(e) Fair value estimation (continued)

The table below represents the fair value of the financial assets and liabilities as at 31 December 2023.

	Level 1	Level 2	Level 3	Fair value	Carrying value
At 31 December 2023	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Assets					
Cash and balances with Central Bank of Kenya	-	-	1,930,087	1,930,087	1,930,087
Government securities at amortized cost	4,304,250	-	-	4,304,250	4,304,250
Deposits and balances due from banking institutions	-	-	1,054,782	1,054,782	1,054,782
Loans and advances to customers	-	-	10,742,644	10,742,644	10,742,644
Other financial assets	-	-	151,249	151,249	151,249
	4,304,250	**151,249**	**13,878,762**	**18,183,012**	**18,183,012**
Liabilities					
Deposits from banks	-	-	2,362,322	2,362,322	2,362,322
Customer deposits	-	-	12,479,931	12,479,931	12,479,931
Borrowings	-	-	1,616,864	1,616,864	1,616,864
Other financial liabilities	-	-	220,844	220,844	220,844
	-	**-**	**16,679,961**	**16,679,961**	**16,679,961**
At 31 December 2022					
Assets					
Cash and balances with Central Bank of Kenya	-	-	1,054,585	1,054,585	1,054,585
Government securities at amortized cost	4,422,569	-	-	4,422,569	4,422,569
Deposits and balances due from banking institutions	-	-	1,094,971	1,094,971	1,094,971
Loans and advances to customers	-	-	5,788,334	5,788,334	5,788,334
Other financial assets	-	-	158,301	158,301	158,301
	4,422,569	**-**	**8,096,191**	**12,518,760**	**12,518,760**
Liabilities	-	-	1,103,334	1,103,334	1,103,334
Deposits from banks	-	-	9,326,192	9,326,192	9,326,192
Customer deposits	-	-	408,246	408,246	408,246
Borrowings	-	-	227,694	227,694	227,694
Other financial liabilities	**-**	**-**	**11,065,466**	**11,065,466**	**11,065,466**

3 Financial risk management (continued)

(f) Capital management

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

- 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.
- to maintain a strong capital base to support the development of its business; and
- to comply with the capital requirements set by the Central Bank of Kenya.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each Bank to:

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

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

- Tier 1 capital (core capital): share capital, retained earnings plus 50% un-audited after-tax profit; and
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of the credit risk associated with each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

3 Financial risk management (continued)

(f) Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of the Bank for at 31 December:

	2023 Shs'000	2022 Shs'000
Tier 1 capital	1,998,939	1,693,030
Tier 1 + Tier 2 capital	2,103,950	1,758,557
Risk-Weighted assets		
On-balance sheet	7,580,285	4,140,003
Off-balance sheet	1,165,953	643,532
Market risk weighted assets	57,833	8,489
Operational risk weighted assets	1,485,346	1,485,345
Total Risk-Weighted assets	**10,289,417**	**6,277,369**
Basel ratio		
Tier 1 (minimum – 10.5%)	19.4%	27.0%
Tier 1 + Tier 2 (minimum – 14.5%)	20.4%	28.0%

4 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Measurement of expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortized 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).

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.

5 Net Interest income

(a) Interest income

	2023 Shs'000	2022 Shs'000
Loans and advances to customers	1,118,641	776,799
Government securities at amortized cost	522,388	422,279
Cash and short-term funds	13,402	17,354
	1,654,431	**1,216,432**

(b) Interest expense

	2023 Shs'000	2022 Shs'000
Customer deposits	742,016	633,500
Deposits and balances due to banking institutions	178,241	36,370
Borrowings (Note 24)	61,193	371
Interest on lease liability (Note 26)	2,561	1,640
	984,011	**671,881**

6 Other operating income

	2023 Shs'000	2022 Shs'000
Rental income	33,509	35,159
Loss on disposal of assets	133	(27)
Other income	3,958	4,550
Loan recoveries	-	242,284
	37,600	**281,966**

7 Operating expenses

The following items have been charged in arriving at profit before tax income:

	2023 Shs'000	2022 Shs'000
Employees benefits (Note 8)	319,442	288,727
Depreciation on property and equipment (Note 18)	39,004	26,384
Depreciation on right of use asset (Note 20)	7,406	6,703
Amortisation of intangible assets (Note 21)	9,135	7,902
Rent expense	2,061	1,945
Auditors' remuneration	4,350	3,969
Amortisation of prepaid operating lease (Note 19)	965	965
Other operating expenses	258,593	225,343
	640,956	**561,938**

8 Employee benefits

The following items are included within employees' benefits expense:

	2023 Shs'000	2022 Shs'000
Salaries	286,479	253,030
Retirement benefits cost	12,796	11,565
National Social Security Fund	819	151
Medical costs	14,499	13,539
Other staff costs	(4,849)	10,442
	319,442	**288,727**

The average number of employees during the year was 68 (2022: 63)

9 Income tax expense

	2023 Shs'000	2022 Shs'000
Current income tax	76,281	153,696
Deferred income tax (Note 17)	(10,063)	(14,432)
Under provision of current tax in prior years	-	1,770
Income tax expense	**66,218**	**141,034**

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

	2023 Shs'000	2022 Shs'000
Profit before income tax	421,612	544,341
Tax calculated at the statutory income tax rate of 30%	126,484	163,302
Tax effect of:		
Expenses not deductible for tax purposes	10,878	29,669
Interest income on infrastructure bonds not subject to tax	(71,144)	(53,707)
Under provision of current income tax in prior year	-	1,770
Income tax expense	66,218	141,034

10 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 355,636,000 (2022: Shs 403,307,000) and on the weighted average number of ordinary shares outstanding during the period.

	2023 Shs'000	2022 Shs'000
Net profit attributable to shareholders (Shs '000)	355,394	403,307
Number of ordinary shares in issue (Note 27)	25,341,547	25,341,547
Basic earnings per share (Shs)	**14.02**	**15.91**

11 Dividends per share

At the forthcoming annual general meeting, a dividend for the year ended 31 December 2023 of Shs 10,000,000 per share amounting to Shs 0.39 (2022: Shs 0.39 per share amounting to Shs 10,000,000) is to be proposed.

The payment of dividends is subject to withholding tax at a rate of either 0%, 5% or 10% depending on the tax status of the respective shareholder.

12 Cash and balances with Central Bank of Kenya

	2023 Shs'000	2022 Shs'000
Cash in hand	170,095	118,974
Local currency balances with Central Bank of Kenya	942,085	732,139
Foreign currency balances with Central Bank of Kenya	738,060	149,319
Mobile money balances	79,847	54,153
	1,930,087	**1,054,585**

13 Government securities at amortized cost

	2023 Shs'000	2022 Shs'000
Treasury bills and bonds:		
Maturing after 90 days of the date of acquisition	4,304,250	4,422,569

Treasury bills and bonds are debt securities issued by the Central Bank of Kenya. As of 31 December 2023, Treasury bonds with a par value of Shs 407 million were under lien in favor of Cooperative Bank of Kenya and Shs 2,709 billion in favor of Central Bank of Kenya.

14 Deposits and balances due from banking institutions

	2023 Shs'000	2022 Shs'000
Local currency deposits	1,271	466
Foreign currency balances with local banks	3,293	603,044
Foreign currency balances with foreign banks	1,050,218	491,461
	1,054,782	**1,094,971**

15 Other assets and prepayments

	2023 Shs'000	2022 Shs'000
Uncleared effects	19,455	10,286
Stationeries	3,921	3,221
Prepayments	62,602	45,025
Other debtors	131,795	99,769
	217,773	**158,301**

16 Loans and advances to customers

	2023 Shs'000	2022 Shs'000
Corporate	7,549,731	3,084,629
SME	2,705,921	2,113,331
Retail	658,952	691,794
Personal	166,984	197,822
Gross loans and advances	11,081,588	6,087,576
Less: Provision for impairment of loans and advances		
- Stage 1	71,836	56,736
- Stage 2	23,178	14,827
- Stage 3	243,930	227,679
	338,944	299,242
Net loans and advances	**10,742,644**	**5,788,334**

16 Loans and advances to customers (continued)

i) Loans and advances to customers at amortized cost

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Gross carrying amount at 1 January 2023	4,800,583	891,457	395,536	6,087,576
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 2	(309,659)	309,659	-	-
- Transfer from stage 1 to stage 3	(482,281)	-	482,281	-
- Transfer from stage 2 to stage 1	2,239	(2,239)	-	-
- Transfer from stage 2 to stage 3	-	(910,814)	910,814	-
- Transfer from stage 3 to stage 1	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-
- Write-offs	-	-	(9,717)	(9,717)
Net remeasurement of loan balance	117,176	-	56,368	173,544
New financial assets originated or purchased	5,420,314	667,969	279,180	6,367,463
Financial assets that have been derecognized	(1,542,022)	21,596	(16,852)	(1,537,278)
Gross carrying amount at 31 December 2023	**8,006,350**	**977,628**	**2,097,610**	**11,081,588**
Gross carrying amount at 1 January 2022	5,289,568	9,631	538,638	5,837,837
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 2	(859,460)	859,460	-	-
- Transfer from stage 1 to stage 3	(9,083)	-	9,083	-
- Transfer from stage 2 to stage 1	-	-	-	-
- Transfer from stage 2 to stage 3	-	(5,154)	5,154	-
- Transfer from stage 3 to stage 1	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-
- Write-offs	-	-	-	-
Net remeasurement of loan balance	76,932	337,638	364	414,934
New financial assets originated or purchased	2,499,916	(305,721)	5,508	2,199,703
Financial assets that have been derecognized	(2,197,290)	(4,397)	(163,211)	(2,364,898)
Gross carrying amount at 31 December 2022	**4,800,583**	**891,457**	**395,536**	**6,087,576**

16 Loans and advances to customers (continued)

ii) Provisions – Loans and advances to customers

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
At 1 January 2023	56,736	14,827	227,679	299,242
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 2	2,367	(2,367)	-	-
- Transfer from stage 1 to stage 3	(53,363)	-	53,363	-
- Transfer from stage 2 to stage 1	(9)	9	-	-
- Transfer from stage 2 to stage 3	-	10,485	(10,485)	-
- Transfer from stage 3 to stage 1	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-
- Write-offs	-	-	(9,269)	(9,269)
Net remeasurement of loan balance	1,239	-	-	1,239
New financial assets originated or purchased	50,159	10,709	13,815	74,683
Financial assets that have been derecognized	14,707	(10,485)	(31,173)	(26,951)
At 31 December 2023	**71,836**	**23,178**	**243,930**	**338,944**
At 1 January 2022	52,536	604	211,602	264,742
Changes in the gross carrying amount				
- Transfer from stage 1 to stage 2	(10,099)	10,099	-	-
- Transfer from stage 1 to stage 3	(1)	-	1	-
- Transfer from stage 2 to stage 1	-	-	-	-
- Transfer from stage 2 to stage 3	-	(1,761)	1,761	-
- Transfer from stage 3 to stage 1	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-
- Write-offs	-	-	-	-
Net remeasurement of loan balance	2,183	-	353	2,536
New financial assets originated or purchased	40,603	4,812	34,891	80,306
Financial assets that have been derecognized	(28,486)	1,073	(20,929)	(48,342)
At 31 December 2022	**56,736**	**14,827**	**227,679**	**299,242**

16 Loans and advances to customers (continued)

Movements in expected credit losses on loans and advances are as follows:

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Year ended 31 December 2023				
At 1 January 2023	56,736	14,827	227,679	299,242
Write-off in the year	-	-	(9,269)	(9,269)
Increase in impairment provision	15,100	8,351	25,520	48,971
At 31 December 2023	71,836	23,178	243,930	338,944
Charge to profit or loss				
Increase in impairment provision	15,100	8,351	25,520	48,971
Year ended 31 December 2022				
At 1 January 2022	52,536	604	211,602	264,742
Increase in impairment provision	4,200	14,223	16,077	34,500
At 31 December 2022	56,736	14,827	227,679	299,242
Charge to profit or loss				
Increase in impairment provision	**4,200**	**14,223**	**16,077**	**34,500**

All loans are written down to their estimated recoverable amount. The amount of non-performing loans (net of impairment losses) at 31 December 2023 was Shs 1,853,679,000 (2022: Shs 167,857,000). There were no receivables under hire purchase contracts in 2023 and 2022.

16 Loans and advances to customers (continued)

Loan book movement

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

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
TRADE				
At 1 January 2023	**1,234,106**	**13**	**265,680**	**1,499,799**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(41,404)	41,404	-	-
Transfer to Lifetime ECL credit impaired	(28,646)	-	28,646	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	1,056,055	-	1,327	1,057,382
Financial assets derecognized	(462,108)	(12)	(7,753)	(469,873)
At 31 December 2023	**1,758,003**	**41,405**	**287,900**	**2,087,308**
REAL ESTATE				
At 1 January 2023	**1,038,237**	**887,629**	**33,610**	**1,959,476**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(212,619)	212,619	-	-
Transfer to Lifetime ECL credit impaired	(48,876)	(910,814)	959,690	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	117,134	-	-	117,134
Net financial assets originated or purchased	966,465	667,969	334,052	1,968,486
Financial assets derecognized	(320,342)	23,185	(2,545)	(299,702)
At 31 December 2023	**1,539,999**	**880,588**	**1,324,807**	**3,745,394**
OTHERS				
At 1 January 2023	**2,528,240**	**3,815**	**96,246**	**2,628,301**
Transfer to 12 months ECL	2,238	(2,238)	-	-
Transfer to Lifetime ECL not credit impaired	(55,636)	55,636	-	-
Transfer to Lifetime ECL credit impaired	(404,759)	-	404,759	-
Write-offs	-	-	9,269	9,269
Net remeasurement of loan balance	42	-	56,368	56,410
Net financial assets originated or purchased	3,397,794	-	(56,199)	3,341,595
Financial assets derecognized	(759,571)	(1,578)	(25,540)	(786,689)
At 31 December 2023	**4,708,348**	**55,635**	**484,903**	**5,248,886**
Total loans and advances				
At 1st January 2023	**4,800,583**	**891,457**	**395,536**	**6,087,576**
Transfer to 12 months ECL	2,238	(2,238)	-	-
Transfer to Lifetime ECL not credit impaired	(309,659)	309,659	-	-
Transfer to Lifetime ECL credit impaired	(482,281)	(910,814)	1,393,095	-
Write-offs	-	-	9,269	9,269
Net remeasurement of loan balance	117,176	-	56,368	173,544
Net financial assets originated or purchased	5,420,314	667,969	279,180	6,367,463
Financial assets derecognized	(1,542,021)	21,595	(35,838)	(1,556,264)
At 31 December 2023	**8,006,350**	**977,628**	**2,097,610**	**11,081,588**

16 Loans and advances to customers (continued)

Loss allowance

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

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
TRADE				
At 1 January 2022	**1,296,054**	**334**	**363,159**	**1,659,547**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(1,927)	-	1,927	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	63,929	-	-	63,929
Net financial assets originated or purchased	814,506	2	4,701	819,209
Financial assets derecognized	(938,456)	(323)	(104,107)	(1,042,886)
At 31 December 2022	**1,234,106**	**13**	**265,680**	**1,499,799**
REAL ESTATE				
At 1 January 2022	**2,154,156**	**-**	**45,109**	**2,199,265**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(859,460)	859,460	-	-
Transfer to Lifetime ECL credit impaired	(559)	-	559	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	288,188	28,169	-	316,357
Financial assets derecognized	(544,088)	-	(12,058)	(556,146)
At 31 December 2022	**1,038,237**	**887,629**	**33,610**	**1,959,476**
OTHERS				
At 1 January 2022	**1,839,358**	**9,297**	**130,370**	**1,979,025**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(6,597)	(5,154)	11,751	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	13,003	-	-	13,003
Net financial assets originated or purchased	1,397,222	4,232	1,170	1,402,624
Financial assets derecognized	(714,746)	(4,560)	(47,045)	(766,351)
At 31 December 2022	**2,528,240**	**3,815**	**96,246**	**2,628,301**
Total ECL loss allowance				
At 1st January 2022	**5,289,568**	**9,631**	**538,638**	**5,837,837**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	(859,460)	859,460	-	-
Transfer to Lifetime ECL credit impaired	(9,083)	(5,154)	14,237	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	76,932	-	-	76,932
Net financial assets originated or purchased	2,499,916	32,403	5,871	2,538,190
Financial assets derecognized	(2,197,290)	(4,883)	(163,210)	(2,365,383)
At 31 December 2022	**4,800,583**	**891,457**	**395,536**	**6,087,576**

16 Loans and advances to customers (continued)

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
TRADE				
At 1 January 2023	**18,567**	**9**	**134,835**	**153,411**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(5,510)	-	5,510	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	19,960	-	13,436	33,396
Financial assets derecognized	(8,661)	(9)	83	(8,587)
At 31 December 2023	**24,356**	**-**	**153,864**	**178,220**
REAL ESTATE				
At 1 January 2023	**4,515**	**10,485**	**1,340**	**16,340**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(15,637)	-	15,637	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	19,954	-	192	20,14 6
Financial assets derecognized	11,460	(10,485)	-	975
At 31 December 2023	**20,292**	**-**	**17,169**	**37,461**
OTHERS				
At 1 January 2023	**33,655**	**4,333**	**91,503**	**129,491**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(35,581)	-	35,581	-
Write-offs	-	-	(9,717)	(9,717)
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	23,310	38,282	244	61,836
Financial assets derecognized	5,804	(19,437)	(44,714)	(58,347)
At 31 December 2023	**27,188**	**23,178**	**72,897**	**123,263**
Total ECL loss allowance				
At 1 January 2023	**56,737**	**14,827**	**227,678**	**299,242**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(56,728)	-	56,728	-
Write-offs	-	-	(9,717)	(9,717)
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	63,224	38,282	13,872	115,378
Financial assets derecognized	8,603	(29,931)	(44,631)	(65,959)
At 31 December 2023	**71,836**	**23,178**	**243,930**	**338,944**

16 Loans and advances to customers (continued)

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
TRADE				
At 1 January 2022	**18,911**	**14**	**146,933**	**165,858**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	1,927	-	-	1,927
Net financial assets originated or purchased	10,333	1	3,777	14,111
Financial assets derecognized	(12,604)	(6)	(15,875)	(28,485)
At 31 December 2022	**18,567**	**9**	**134,835**	**153,411**
REAL ESTATE				
At 1 January 2022	**8,098**	**-**	**1,331**	**9,429**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(10,099)	10,099	-	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	-	-	-	-
Net financial assets originated or purchased	3,782	387	9	4,178
Financial assets derecognized	2,733	-	-	2,733
At 31 December 2022	**4,514**	**10,486**	**1,340**	**16,340**
OTHERS				
At 1 January 2022	**25,526**	**590**	**63,338**	**89,454**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(1)	(1,761)	1,762	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	256	-	-	256
Net financial assets originated or purchased	17,741	5,503	31,457	54,701
Financial assets derecognized	(9,867)	-	(5,053)	(14,920)
At 31 December 2022	**33,655**	**4,332**	**91,504**	**129,491**
Total ECL loss allowance				
At 1 January 2022	**52,535**	**604**	**211,602**	**264,741**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	(10,100)	8,338	1,762	-
Write-offs	-	-	-	-
Net remeasurement of loan balance	2,183	-	-	2,183
Net financial assets originated or purchased	31,856	5,891	35,243	72,990
Financial assets derecognized	(19,738)	(6)	(20,928)	(40,672)
At 31 December 2022	**56,736**	**14,827**	**227,679**	**299,242**

16 Loans and advances to customers (continued)

	Stage 1 Shs'000	Stage 2 Shs'000	Stage 3 Shs'000	Total Shs'000
Non-financial guarantees				
At 1 January	-	-	-	-
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	-	-	-	-
Net financial assets originated or purchased	-	-	-	-
Financial assets derecognized	-	-	-	-
At 31 December	-	-	-	-
Loan commitments				
At 1 January	-	-	-	-
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	-	-	-	-
Net financial assets originated or purchased	-	-	-	-
Financial assets derecognized	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**
Total off-balance sheet				
At 1 January	**1,158**	**-**	**-**	**1,158**
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	-	-	-	-
Net financial assets originated or purchased	-	-	-	-
Financial assets derecognized	-	-	-	-
At 31 December	**1,158**	**-**	**-**	**1,158**

ECL of Shs 3,925,718 (2022: Shs 3,925,718) and Shs 855,582 (2022: Shs 855,582) has been recognised for Government securities at amortized cost and balances due from other banking institutions respectively.

17 Deferred income tax

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

	2023 Shs'000	2021 Shs'000
At start of year	146,389	131,957
Credit to the statement of comprehensive income (Note 9)	10,063	14,432
At end of year	**156,452**	**146,389**

The deferred income tax asset and deferred income tax credit in the statement of comprehensive income and equity are attributable to the following items:

	1 January Shs'000	Credited/ (charged) to SOCI Shs'000	31 December Shs'000
31 December 2023			
Deferred income tax asset			
Provisions	103,998	8,838	112,836
Accelerated tax depreciation	3,293	1,647	4,940
Accrued interest on customer deposits	38,436	(224)	38,212
Lease liability	2,926	5,946	8,872
Deferred income tax liability			
Right of use asset	(2,264)	(6,144)	(8,408)
Net deferred income tax asset	**146,389**	**10,063**	**156,452**
31 December 2022			
Deferred income tax asset			
Provisions	91,284	12,714	103,998
Accelerated tax depreciation	2,793	500	3,293
Accrued interest on customer deposits	36,721	1,715	38,436
Lease liability	5,435	(2,509)	2,926
Deferred income tax liability			
Unrealized exchange gain	(1)	1	-
Right of use asset	(4,275)	2,011	(2,264)
Net deferred income tax asset	**131,957**	**14,432**	**146,389**

18 Property and equipment

	Buildings Shs'000	Leasehold Improve-ments Shs'000	Motor vehicles Shs'000	Fixtures, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2022						
Cost						
At 1 January 2022	235,984	29,191	6,705	185,226	738	457,844
Additions	-	-	14,198	22,966	-	37,164
Transfers from WIP	-	-	-	738	(738)	-
Disposals	-	-	-	(272)	-	(272)
At 31 December 2022	**235,984**	**29,191**	**20,903**	**208,658**	**-**	**494,736**
Depreciation						
At 1 January 2022	98,643	20,997	6,506	152,873	-	279,019
Charge for the year	4,721	3,474	3,313	14,876	-	26,384
On disposals	-	-	-	(126)	-	(126)
At 31 December 2022	**103,364**	**24,471**	**9,819**	**167,623**	**-**	**305,277**
Net book value						
At 31 December 2022	**132,620**	**4,720**	**11,084**	**41,035**	**-**	**189,459**
Year ended 31 December 2023						
Cost						
At 1 January 2023	235,984	29,191	20,903	208,658	-	494,736
Additions	-	-	-	50,352	14,929	65,281
Disposals	-	-	-	(3,217)	-	(3,217)
At 31 December 2023	**235,984**	**29,191**	**20,903**	**255,793**	**14,929**	**556,800**
Depreciation						
At 1 January 2023	103,364	24,471	9,819	167,623	-	305,277
Charge for the year	4,721	3,474	3,609	27,200	-	39,004
On disposals	-	-	-	(3,217)	-	(3,217)
At 31 December 2023	**108,085**	**27,945**	**13,428**	**191,606**	**-**	**341,064**
Net book value						
At 31 December 2023	**127,899**	**1,246**	**7,475**	**64,187**	**14,929**	**215,736**

19 Prepaid operating lease rentals

	2023 Shs'000	2022 Shs'000
At start of year	69,583	70,548
Amortization charge for the year	(965)	(965)
At end of year	**68,618**	**69,583**
Cost	93,715	93,715
Accumulated amortization	(25,097)	(24,132)
	68,618	**69,583**

20 Right of Use Assets

	2023 Shs'000	2022 Shs'000
At start of year	7,547	14,250
Additions	27,888	-
Depreciation charge for the year (Note 7)	(7,406)	(6,703)
At end of year	**28,029**	**7,547**

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

21 Intangible assets

	2023 Shs'000	2022 Shs'000
At start of year	30,450	30,464
Additions	16,151	7,888
Amortisation charge for the year (Note 7)	(9,135)	(7,902)
At end of year	**37,466**	**30,450**

22 Deposits and balances due to banking institutions

	2023 Shs'000	2022 Shs'000
Local currency deposits from banks	1,217,988	-
Deposits due to CBK	1,144,334	1,103,334
	2,362,322	1,103,334

23 Deposits from customers

	2023 Shs'000	2022 Shs'000
Current accounts and demand deposits	2,683,468	1,413,510
Savings and transaction accounts	328,765	280,247
Fixed deposit accounts	9,467,698	7,632,435
	12,479,931	**9,326,192**

24 Borrowings

	2023 Shs'000	2022 Shs'000
At start of year	408,246	-
Additions in the year	1,032,000	407,875
Interest expenses	61,193	-
Principal repayments	(85,311)	
Interest repayments	(33,437)	-
Currency translation differences	234,173	371
At end of year	**1,616,864**	**408,246**

The weighted effective interest rate on the borrowings at 31 December 2023 was 3.49% (2022: 3.42%). The borrowings are measured at amortised cost.

The Bank received a term loan of USD 7.5 million from Micro, Small & Medium Enterprises Bonds S.A in May 2023 for on-lending to Eligible Green projects, at a fixed interest rate of 5.5% p.a. The loan has a tenor of 4 years with interest repayable bi-annually and bullet repayment of the principal on maturity.

25 Other liabilities and accrued expenses

	2023 Shs'000	2022 Shs'000
Other accruals and liabilities	218,385	210,730
Bills payable	2,240	16,789
Outstanding banker's drafts	219	175
	220,844	**227,694**

26 Lease liabilities

At start of year	9,754	18,116
Additions	27,888	-
Disposals	-	-
Interest expenses (Note 5(b))	2,561	1,640
Payments in the year	(10,631)	(10,002)
At end of year	**29,572**	**9,754**

27 Share capital

	Number of Shares	Ordinary shares Shs'000
At 1 January 2022, 1 January 2023 and 31 December 2023	25,341,547	506,831

The total authorised number of ordinary shares is 37,500,000 with a par value of Shs 20 per share. All issued shares are fully paid.

28 Reserves

(a) Regulatory reserve

	2023 Shs'000	2022 Shs'000
At start of year	65,527	23,407
Transfer from retained earnings	39,484	42,120
At end of year	**105,011**	**65,527**

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

(b) Fair value reserve

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

29 Off balance sheet financial instruments, contingent liabilities and commitments

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

Contingent liabilities

	2023 Shs'000	2022 Shs'000
Acceptances and letters of credit	418,148	938,775
Guarantee and performance bonds	2,409,582	1,146,149
Currency Bought & Sold	297,260	2,649
	3,124,990	**2,087,573**

29 Off balance sheet financial instruments, contingent liabilities and commitments (continued)

Nature of contingent liabilities

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

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

Commitments

	2023 Shs'000	2022 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,821,768	2,531,151

Nature of commitments

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

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

Bank facility

The Bank has a Domestic Foreign Currency Cheque Clearing facility (DFCC) with the Central Bank of Kenya. The Bank has given USD 133,000 in favour of Central Bank of Kenya to secure this facility.

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

	2023 Shs'000	2022 Shs'000
Cash and balances with Central Bank of Kenya (Note 12)	1,930,086	1,054,585
Deposits and balances due from banking institutions (Note 14)	1,054,782	1,094,971
Less: Deposits due to banks (Note 22)	(2,362,322)	(1,103,334)
Less: cash reserve requirement	(483,349)	(355,481)
	139,197	**690,741**

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

Banks are required to maintain a prescribed minimum average cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities. At year end, the amount was determined as 9.92% (2022: 8.06%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

31 Related party disclosures

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

(i) Loans and advances to related parties

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

	2023 Shs'000	2022 Shs'000
At start of year	593,076	283,376
Advances during the year	188,653	318,433
Repayments during the year	(43,604)	(8,733)
At end of year	**738,125**	**593,076**
Advances to Bank employees at end of year	137,878	158,089
Interest income earned on advances to employees, directors or entities controlled by directors	67,716	44,216

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

	2023 Shs'000	2022 Shs'000
At start of year	53,609	31,591
Issues	11,782	38,353
Retirement	(31,957)	(16,335)
At end of year	**33,434**	**53,609**

(iii) Deposits from related parties

	2023 Shs'000	2022 Shs'000
Deposits from staff and directors or entities controlled by directors	1,181,758	1,088,172
Interest expense paid on deposits by directors or entities connected to directors	72,303	73,352

31 Related party disclosures (continued)

(iv) Other transactions

In the normal course of business, the Bank paid insurance premium to an entity associated with the Bank as follows:

	2023 Shs'000	2022 Shs'000
Insurance premium paid	38,498	31,216

(v) Key management compensation

	2023 Shs'000	2022 Shs'000
Salaries and other short-term employment benefits	109,750	106,672
Other long-term benefits	4,958	5,691
	114,708	**112,363**

The Bank has a compensation policy that is market oriented and is effective in ensuring that required skills are always available. The policy ensures compensation consistency within business units. The policy also provides employment stability, healthcare benefits and provident fund plan to employees. Bank's policy honours any Collective Bargaining Agreements that are applicable. The policy is non-discriminatory in nature.

(vi) Directors' remuneration

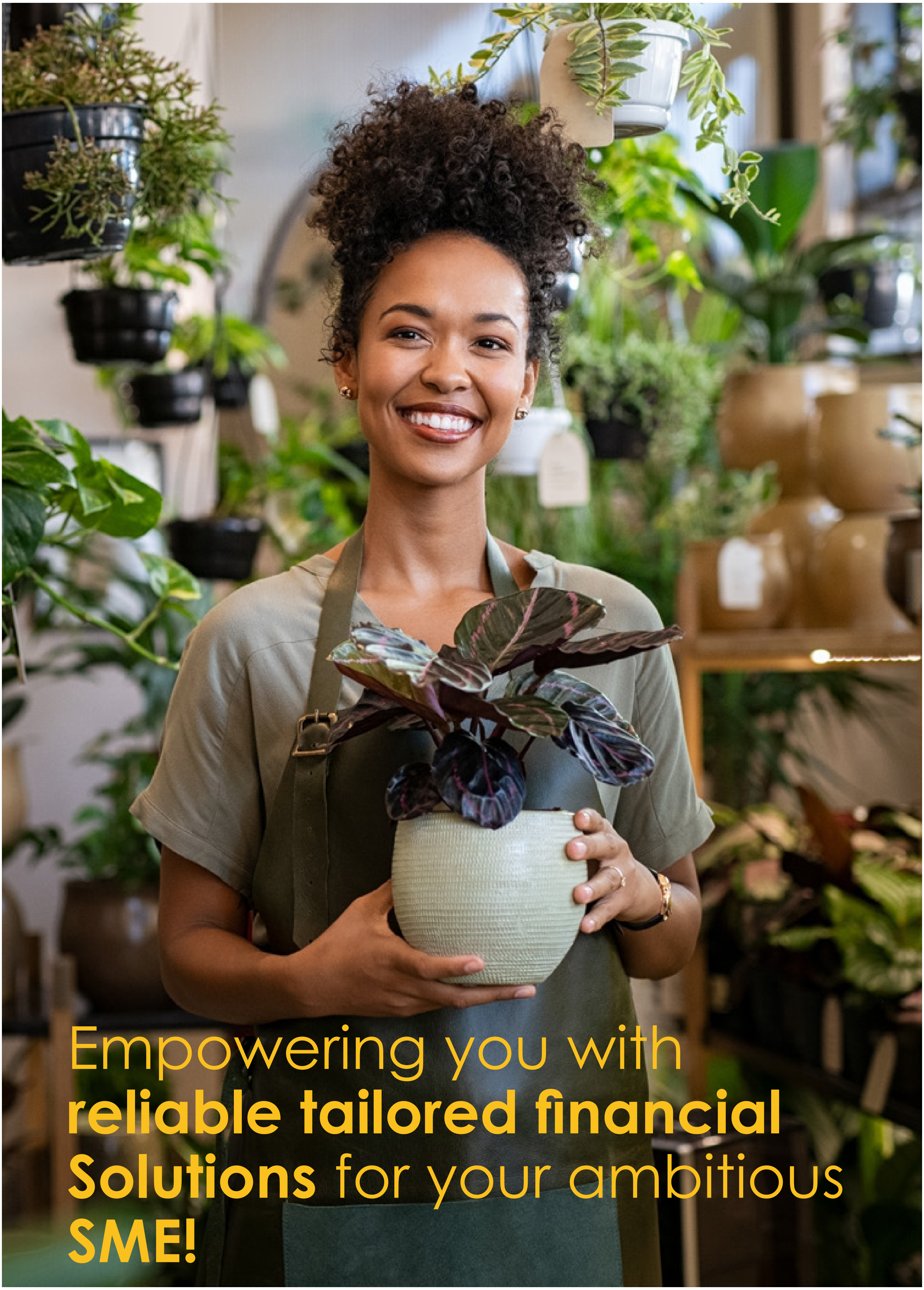
	2023 Shs'000	2022 Shs'000
Fees and other emoluments	56,184	43,030

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

31 Other contingencies

In 2016, the Bank suffered fraud losses at its former Nyerere Road branch in Mombasa. All verified claims have been refunded to the respective customers. The loss relating to the refunds has been accounted for in these financial statements. No provisions have been made in relation to the unverified claims from customers as the directors believe that the eventual loss from the unverified claims will not result in a material cash outflow to the Bank.

The Bank lodged a claim with its insurers for the fraud loss above. The total claim was Shs 104 million. The matter is currently in arbitration. An asset of Shs 40.7 million has been recognized in these financial statements (2022: Shs 40.7 million).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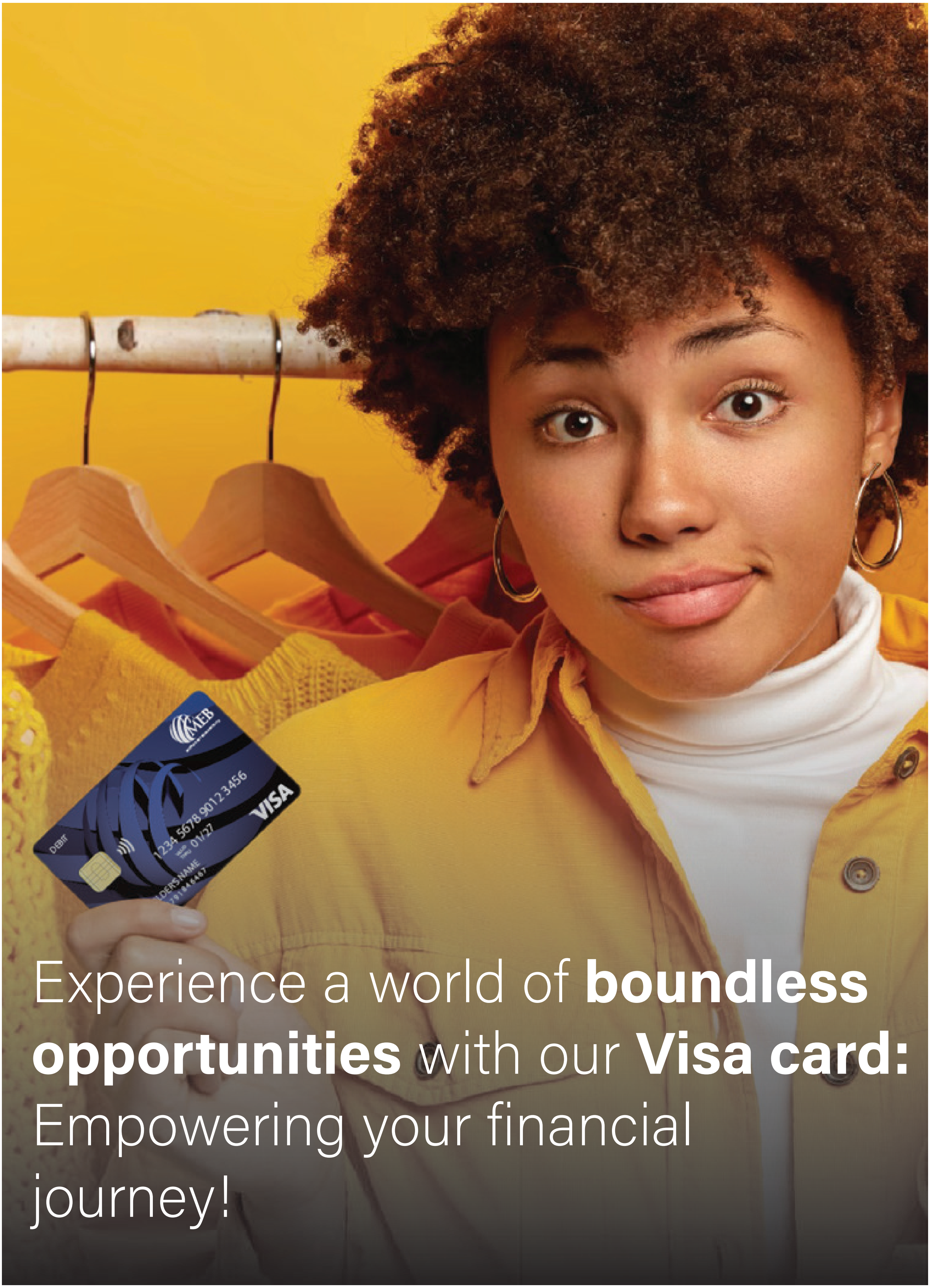
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PROXY FORM FOR THE ANNUAL GENERAL MEETING TO BE HELD ON 27TH JUNE 2024.

I/We……...

of P.O. Box……...

being a shareholder of ………………………………………............................... Ltd. hereby appoint Please tick one only:

1. The Chairman of the Meeting ( )

OR

2. Mr/ Mrs/ Ms ……………………………………………… ( )

of P.O. Box …………………………………………………

as my/our proxy to attend and on a poll vote for me/us on my /our behalf at the **Annual General Meeting** of the Company to be held on **Thursday 27th June 2024 at 1.00 p.m.** and at any adjournment thereof.

Signature ....

Signed ....……….................... day of 2024

NOTES:

1. In the case of a member being a corporation, the proxy must be under the hand of an officer or attorney duly authorised in writing.

2. To be valid this proxy form must be completed and delivered to the Company Secretaries, Zainash Registrars, 1st Floor, Pacis Centre, Off Waiyaki Way, Westlands, P.O. Box 44, 00606, 00606, Nairobi, Kenya or be emailed to jochoi@ke.rsm-ea.com or tmwangi@ke.rsm-ea.com not later than 24 hours before the meeting or any adjournment thereof.

3. A proxy need not be a member of the Company

MEB

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