Fostering
Financial Inclusion

Annual Report
2023

Credit Bank
My Friend, My Bank

About this Report

Credit Bank Group PLC Annual Report and Financial Statement 2023 provides a balanced and comprehensive view of the Group's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed. The reporting period covered is from **1 January 2023** to **31 December 2023**.

The Group's Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The report is part of our commitment to be transparent and accountable to our stakeholders.

As a financial services provider, we play an important role in the economic life of individuals, businesses and nations, supporting the socio economic welfare of our people. Through all our activities, we consider our stakeholders as we pursue our ambition to have a positive impact on society and deliver shareholder value.

Credit Bank PLC's 2023 financial statements were audited by PricewaterhouseCoopers LLP.

Financial Solutions that Express Value.

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Notice of Annual General Meeting

The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY EIGHTH (38TH) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD VIRTUALLY, ON MONDAY, 24TH JUNE 2024 AT 10.00 AM

Agenda

Ordinary Business

1. To read the notice convening the meeting and confirm the presence of a quorum.
2. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2023 together with the Directors' and Auditors' Reports thereon.
3. To note that the Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2023.
4. To re-elect Directors in accordance with the Articles of Association:-
   i) Dr. James Stanley Mathenge, retires from office by rotation and, being eligible, offers himself for re-election.
   ii) Mr. Jack Mugo Ngare, retires from office by rotation and, being eligible, offers himself for re-election.
5. To approve the Directors' remuneration for the financial year 2024.
6. To authorize the directors to fix the Auditors' remuneration.
7. To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

By Order Of The Board

Dcdm Registrars.

DCDM Registrars
Company Secretaries
30th May 2024

Note:

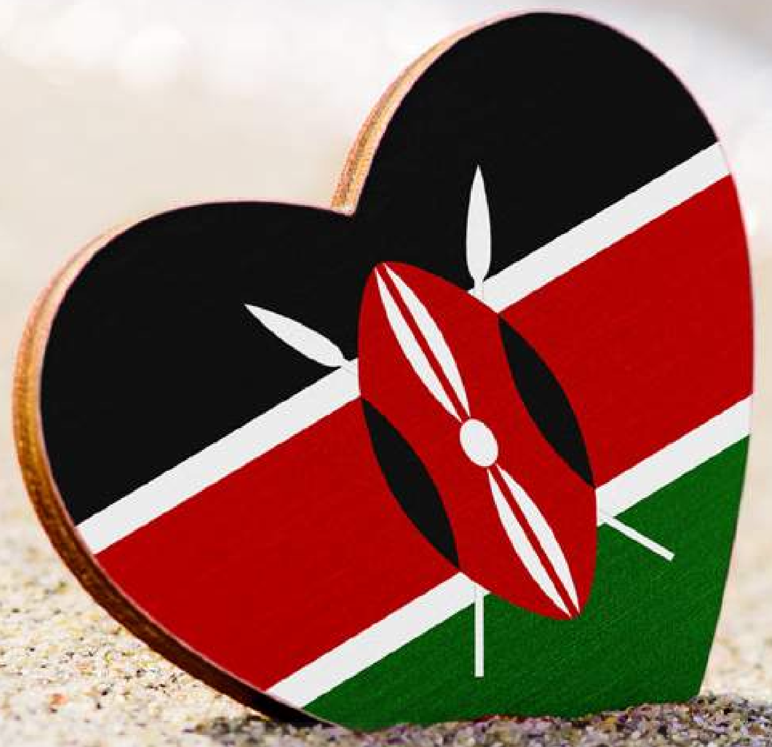
1. In accordance with Section 298(1) of the Companies Act, 2015, a member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member.
2. A form of proxy may be obtained from the Bank's website, www.creditbank.co.ke or the Bank's Head Office, 14th Floor, One Africa Place, Waiyaki Way, Nairobi and should be completed and returned to the Secretary, to arrive not later than 48 hours before the meeting or any adjournment thereof.
3. The Audited Accounts and Financial Statements for the year ended 31 December 2023 may be viewed at the Bank's website, www.creditbank.co.ke or a printed copy be obtained from the Bank's Head Office, 14th Floor, One Africa Place, Waiyaki Way, Nairobi.
4. All shareholders will be pre-registered using their Bio-data details in the Company Register and will receive a personalized link via SMS and/or email. Shareholders wishing to participate in the meeting still need to confirm their attendance for the AGM online at https://digital.candrgroup.co.ke or via a link to the AGM Platform that will be sent to them via SMS and/or Email by dialing USSD short code number *483*637# and following the various registration prompts. In order to complete the registration process, shareholders who are not using the pre-registration link will need to have their ID/ Passport Numbers which were used to purchase their shares and their shares account number at hand. For assistance shareholders should dial the following helpline number +254 20 8690360 from 8:00 a.m to 4:00 p.m from Monday to Friday. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email to digital@candrgroup.co.ke digital@candrgroup.co.ke.

5. Registration for the AGM opens on 17th June, 2024 at 08:00AM and will close on 21st June, 2024 at 12.00 Noon.
6. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by:
   a) Sending their written questions by email to digital@candrgroup.co.ke; or
   b) Shareholders who will have registered to participate in the meeting shall be able to ask questions via SMS by dialing the USSD code ***483*637#** and selecting the option (ask Question) on the prompts; or
   c) Shareholders who will have registered to participate in the meeting shall be able to ask questions online at https://digital.candrgroup.co.ke or via a link to the AGM platform; Select Attend Event; Select "Credit Bank PLC AGM"; Select "Q&A" option tab and submit questions in text box provided; or
   d) To the extent possible, physically delivering their written questions by 21st June, 2024 12:00 Noon with a return physical address or email address to the Company Registrars address: Custody & Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue.
7. Shareholders wishing to vote may do so by:
   a) Accessing Virtual AGM via online at https://digital.candrgroup.co.ke or via a link to the AGM platform; Select Attend Event; Select "Credit Bank PLC AGM"; Select "Voting" option tab and vote; or
   b) Accessing Virtual AGM via USSD platform ***483*637#**; Use the menu prompts menu option for "Voting" and follow the various prompts regarding the voting process.
8. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to vote on their behalf.
   - A proxy need not be a member of the Company. If the Proxy appointed is not the Chairman of the AGM, the appointed proxy will need access to a mobile telephone or an internet enabled device.
   - A proxy form is included in this Annual Report and is also available on the Company's website via this link: www.creditbank.co.ke. Physical copies of the proxy form are also available at the Company Registrars address: Custody & Registrars, IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi.
   - A proxy form must be signed by the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate.
   - A completed form of proxy should be emailed to proxy@candrgroup.co.ke or delivered to Custody & Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi so as to be received not later than Tuesday 21st June 2024 at 10.00 AM. Any person appointed as a proxy should submit his/her email or mobile telephone number to the Company no later than Wednesday 21st June 2024 at 10:00 AM.
   - Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Wednesday 21st June 2024 to allow time to address any issues.
9. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting. Duly registered shareholders and proxies will receive a short message service SMS/ and/or an email prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS and/or an email prompt shall be sent two hours ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in two hours' time and providing a link to the live stream.
10. Duly registered shareholders and proxies may follow the proceedings of the AGM using the live stream platform and may access the agenda. Duly registered shareholders and proxies may vote (when prompted by the Chairman) via the USSD ***483*637#** or ***Voting Matters*** tab on the live stream display screen
11. A poll shall be conducted for all the resolutions put forward in the notice.
12. Results of the AGM shall be published within 24 hours following the conclusion of the AGM

13 All shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more are required to be delivered to the Unclaimed Financial Assets Authority ('the Authority) as abandoned assets on the appointed date. Therefore, all shareholders with previous unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below:

Custody & Registrars Services Ltd
IKM Place, Tower B, 1st Floor | 5th Ngong Avenue, Nairobi
Mobile: +254 20 7608216 | Email: info@candrgroup.co.ke

Credit Bank
At a Glance



16 Branches Across Kenya

Nairobi
Koinange
Westlands
Lavington
Industrial Area
Ngong Road
Kitengela
Rongai
Thika
One Africa

Eldoret
KVDA Plaza

Kisumu
Swan Centre

Kisii
Hospital Road

Machakos
Mbolu Malu Rd

Meru
Stemuki Building

Mombasa
Nkurumah Road

Nakuru
Giddo Plaza

Since 1986

Over 45,000 Customers

Fully Digital Bank

At Credit Bank, we take pride in our qualified Human Capital capable of delivering personalised financial solutions to customers. Our focus on the Trade Finance Space has enabled us provide a unique value propositon to SMEs. We are a friend your business can bank on.

R17 Version of T24

214 Employees

Select Awards 2023/2024

Think Business
First Runner Up, Best Bank in Digital Banking

CSR 100 Award
Best in Entrepreneurship Skills Development Initiatives

Gender Mainstreaming Awards
Second, Economic Empowerment, East Africa

Kenya ESG Awards 2024
Credit Bank PLC emerged as the winner (No. 1) at the Kenya ESG Awards 2023-2024, Ethical Finance Institution category, hosted by KENCTAD.

Continued Growth
Credit Bank PLC has officially onboarded Shorecap III, LP as a shareholder

Over 10,200 Shareholders

Board of **Directors**

Moses M. Mwendwa . Chairman of the Board of Directors

Mr. Moses Mwendwa is a Kenyan national with vast qualifications in the accounting field. He is an experienced financial and tax advisor with specialist knowledge in sourcing credit finance for corporate, groups and individuals. He has worked as a director in firms of professional accountants and management consultants for more than 35 years advising clients on capital investment appraisals.

Mrs. Grace Nyachae . Director

Mrs. Grace is a founding director of Credit Bank PLC. She worked in the Civil Service for 11 years and has vast experience in managing businesses especially in the agricultural sector. She sits on various boards including H.C.D.A, Sotik Tea Company Limited Sansora Group of Companies, among others.

Ketan Morjaria . Director

Mr. Ketan Morjaria is a UK qualified Chartered Accountant with extensive experience in financial risk management, controls and fraud. He has over 23 years of business experience in Africa and the United Kingdom. He has been a shareholder in Credit Bank PLC since its establishment and has served on the board of the bank for several years and chaired key board committees.

Robinson Gachogu . Director

Mr Robinson Gachogu holds a Bachelor of Commerce Degree – (Accounting Option) with extensive experience in financial management. He has over 45 years of experience in the financial services sector, including Chief Executive Officer at Savings and Loans (Mortgage arm KCB Group). He serves in various boards.

Jay Karia . Director

Mr. Jay Karia is a British national with vast experience in manufacturing, trading and banking in Kenya and Uganda. He has certifications in corporate governance with speciality in performance and sustainability. He is a shareholder and director at Credit Bank PLC.

Dr. James Stanley Mathenge . Director

Dr. James Mathenge is a former long-servicing permanent secretary and career administrator. He has served as Chairman of Public Service Commission, Kirinyaga University College and Kenya Freedom from Hunger Council. He is on several boards in the Anglican Church of Kenya and has also served as a board member of several private and public companies.

Jack Ngare . Director

Jack Ngare has more than 20 years' experience in technology and is currently a Technical Director at Google. He brings in-depth knowledge around topics like telecommunications, financial services and emerging technology. He holds a Master's Degree in Advanced Computer Science and a Bachelor's Degree in Computer Science from the University of Leicester.

CPA Elizabeth Mueni Musyoka . Director

CPA Elizabeth Mueni Musyoka is a Finance, Accounting, and Strategic Management Specialist with over 30 years of experience. She has worked with The Tourism Trust Fund(TTF), The Nile Basin Initiative, OXFAM, The Riara Group, Agricultural Finance Corporation (AFC), Forum for African Women Educationalists (FAWE) and the County Council of Masaku. She holds a Bachelor's Degree in International Business Administration, an MBA in Strategic Management, and a MIBA in Finance from USIU-A. She is a member of the Institute of Certified Public Accountants Kenya (ICPAK).

Leon Nyachae . Director

Leon Nyachae an architect and entrepreneur with more than 20 years of experience in various Kenyan businesses, he is currently the Managing Director of Sansora Group. Mr Nyachae is a qualified architect with a particular interest in sustainable and affordable housing development. He currently manages a diversified conglomerate with interests in real estate, farming and financial services. He also serves as a Non-executive director of Kenindia Assurance Company, Paper House of Kenya and Sotik Tea Company.

Mrs. Betty C. M. Korir . Chief Executive Officer

Mrs. Betty Korir is a career banker and a leadership coach with over 30 years' experience obtained several local banks as well as international exposure obtained from Triodos Bank. She holds the 2023 11th Gender Mainstreaming Awards as the Overall Winner, Inclusive Leader, East Africa Category. She is a transformational leader at the helm of Credit Bank PLC and senior executive keen on driving social impact.

Robert Ndung'u . Company Secretary

Robert is a holder of a BA from University of Nairobi, a Certified Public Secretary, CPS (K), and a member of the Institute of Certified Public Secretaries with over 25 years' experience in providing corporate secretarial services. He also helped in setting up of the Uganda Securities Exchange. Robert has been affiliated with BDO since 2009 and is in charge of providing corporate secretarial services to the firm.

Chairman's
Report

Dear Friends, Esteemed Shareholders,

on behalf of the entire board of Credit Bank PLC, I would like to thank all of you for your support as we mark the 2024 Annual General Meeting (AGM). I would also like to acknowledge the board's support in providing oversight to the management as they navigated through a difficult operating environment.

Operating Environment

The Kenyan economy braved several headwinds in 2023 and was faced with uniquely challenging currency depreciation that caused capital flight due to the strengthening US dollar. Geopolitical risks among them the Russia-Ukraine war, the Red Sea disruptions and the escalating conflict in the Middle East saw several economies around the world tighten monetary policies which impacted Kenya.

The banking industry was particularly faced with difficult challenges including high interest rates caused by the tightening of the Central Bank of Kenya monetary policy alongside the currency volatility that saw the Kenyan shilling lose more than 20 per cent of its value in the year under review.

The CBK increased the CBR rate to 10.50 per cent as at June 2023, and 12.50 per cent as of December 2023 compared to 8.75 in December 2022. This increase was necessitated by the need to address inflationary pressures caused by the depreciation of the Kenyan Shilling against major currencies and high global prices during the review period. As a result, overall interest rates increased during the review period.

As a business, we remained resilient amid these challenges, growing our balance sheet. There are other pertinent areas of the business such as growing non-performing loans, which continue to affect the entire banking industry, that still need special attention from our teams to sustain the current profit momentum into the medium term.

The bank continues to play a significant role in supporting Small and medium-sized enterprises (SMEs), which are the backbone of our business. The bank went a step further to ensure that this segment of customers is part of our digital transformation agenda, and I am pleased to have witnessed its implementation first-hand.

Employees and Culture

A strong and healthy employee culture cannot be gainsaid since employees are the backbone of a strong banking business. I am pleased that in keeping with our commitment, the bank continues to attract and retain high-quality talent to help drive our business goals and serve our customers.

Dear shareholders, sustainability also remains at the core of our business, and we continue to adopt new technology to enhance automation and seamless service delivery.

Safeguarding Value

The board has consistently provided diligent oversight across all levels of the business, ensuring the preservation of shareholder value and the strengthening of corporate governance. Through proactive monitoring and strategic guidance, we have upheld the highest standards of accountability and transparency, reinforcing our commitment to excellence and long-term stability.

> As a Bank, we continue to adopt new technology to enhance automation and seamless service delivery.

Strategic Partnerships

In line with our five-year strategy, I am pleased to announce that we have welcomed a new shareholder to bolster our core capital, enhancing our competitiveness and ability to better serve our customers despite a challenging environment.

This new shareholder brings not only capital but also valuable technical expertise, aiding our progress in key areas such as systems, credit portfolio management, and other core business functions. We remain committed to exploring and pursuing market opportunities as part of our organic growth strategy.

Acknowledgements

As I conclude, I would like to thank all employees for their hard work and diligence in executing our business goals that saw the bank move into the profit territory in the year under review. Their efforts saw the bank post a Sh32.4 million after-tax profit for the Full Year ended December 2023, reversing a loss of Sh1.6 million from the previous period. The return to profitability was boosted by a marginal growth in operating income and cost containment measures that saw the bank cut operating expenses to deliver positive returns.

I am looking forward to purposeful deliberations during this AGM and your support in executing the bank's strategic direction

Thank You!

Mr Moses Mwendwa,
Chairman, Board of Directors
Credit Bank PLC

You Can **Do More** with the Right Card

Get our **Multi-currency Platinum Prepaid Card** featuring USD, GBP, EUR and KES. Your perfect travel companion awaits.

For more information call us on
0709 072 000
creditbank.co.ke

Credit Bank
My Friend, My Bank

Management
Team

Mrs. Betty C. M. Korir . Chief Executive Officer

Mrs. Betty Korir has over 30 years of Banking Experience spanning across several banks. She holds 2 Bachelors' Degrees (Hons), Post Graduate Master's Degree in Business Administration and is currently pursuing a PhD in public policy at the University of Nairobi.

On the professional front, she is an accredited Risk Expert. She is an Associate of Kenya Institute of Bankers and a finalist in ACIB. She is a Member of the Global Association of Finance and Management (GAFM) and a certified Chartered Credit Analyst (CCA).

Eric Nyachae . Executive Officer, Business and Strategy

Eric Nyachae has more than 20 years in the banking industry. He has vast working experience in Credit, Banking Operations, Marketing, Corporate Banking and Business Development. He currently holds a Bachelor of Arts in Business Administration from King Alfred's College of Higher Education and a HND in Business Studies from the Salisbury College of Technology.

Jackson Njenga . Chief Manager . Risk and Compliance

Jackson Njenga has over 23 years' experience in the finance field. He is a Certified Public Accountant – CPA(K), Certified Public Secretary – CPS(K) and member of both the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). He holds an MBA degree from the University of Nairobi (Strategic Management).

Daniel Lesirma . Head of Finance

Mr. Daniel Lesirma has over 20 years' experience in finance. He is a Certified Public Accountant of Kenya. He holds a Master's Degree in Business Administration (Finance Option), from the University of Nairobi. He is a Member of the Institute of Certified Public Accountants of Kenya and also holds a Certificate in Business Analytics from the Harvard Business School.

Isaac Nduvi . Chief Manager Internal Audit

Mr. Nduvi's has over 17 years of experience in the banking industry. His educational credentials include a Degree in Bachelor of Commerce (Accounting Option) from Kenyatta University, a Master's in Economics (Policy Analysis) at the University of Nairobi. He has attended various professional courses including Computer Crimes and Security Systems, Fraud Detection, Investigation and Management.

Charles Kibara . Chief Manager . Operations & Branches

Mr. Kibara has over 18 years' experience in finance, internal and external audit. He is CPA (K), member of the Institute of Certified Public Accountants (ICPAK) and holds a Master's of Business Administration (MBA) Degree from the University of Nairobi. He has attended numerous professional development and leadership courses in internal control.

Francis Ngaruiya . Head of Legal

Francis is a legal expert with over 20 years' experience. He is a Certified Public Secretary (CPSK), a Notary Public, Commissioner for Oaths, and a Qualified HR Practitioner. He has a Bachelor of Law Degree from Moi University, a Post Graduate Diploma in Law from the Kenya School of Law and a Post Graduate Diploma in Human Resource Management from the Institute of Human Resource Management.

Diversity and Inclusion.

Credit Bank PLC has officially onboarded Shorecap III, LP as a shareholder, following regulatory approvals and shareholder consent. Shorecap III, LP acquired a 20% stake in Credit Bank PLC on June 15, 2023. CBL Patron Grace Nyachae highlighted the partnership's potential to build a dynamic lender and boost market confidence, while Credit Bank CEO Betty Korir emphasized that the collaboration would enhance capital ratios and competitiveness in Kenya's banking sector. The goal is to innovate, expand, and offer optimal digital-first, cost-efficient services to meet evolving market needs. This move aims to drive diversified growth in Credit Bank's non-funded business.

The Key to Financial Freedom: **Inclusion.**

We are proud to participate in the GMA Awards, as their mission and values resonate deeply with ours. GMA champions meaningful female representation in mainstream business, a cause we passionately support.

At Credit Bank, we recognize the crucial role women play in the African economy. Africa boasts the highest percentage of women entrepreneurs globally. Women reinvest up to 90% of their income into their families and communities, compared to up to 40% for men. This demonstrates the transformative potential of investing in women's businesses.

Access to financing is a significant barrier for growing businesses. To tackle this, Credit Bank partners with like-minded organizations to provide affordable financing and loans with favorable collateral terms. We support 1 in 5 women-owned businesses, empowering young people and aspiring entrepreneurs. By investing in women's businesses, we can drive substantial societal change.

We are delighted to announce that on October 5, 2023, we celebrated double victories at The Accenture 11th Gender Mainstreaming Awards. We secured the 2nd position in the Economic Empowerment East Africa category, and our CEO, Mrs. Betty Korir, received the prestigious Overall Winner award in the Inclusive Leader East Africa category.

Chief Executive Officer's **Report**

Ladies and Gentlemen,

This past year has been exciting as we worked to fulfill the mandates set by the Group Board and achieve our organizational goals. The year 2023 brought significant challenges, including geopolitical tensions in Asia and the Middle East, along with fiscal, regulatory, and currency volatility in Kenya. These uncertainties affected the entire banking sector including our colleagues, customers, and the businesses we support .

Financial Performance

Despite the unsettling landscape, the Kenyan economy continues to be resilient, and 2023 was yet another good year for Credit Bank. We maintained a strong balance sheet, with our asset base growing despite the challenging operating environment. Our return to profitability was driven by a 9% growth in operating income and cost containment measures that reduced operating expenses.

My Commitment

I want to reaffirm the commitment I made during last year's address, emphasizing that our profits and purpose are closely connected. I assured you of my full focus on delivering our five-year strategy, which centers on putting the customer first by ensuring excellent service at every touchpoint, accelerating our digital transformation, enhance brand visibility, improved organizational health and driving operational efficiency. We have made significant progress in these core areas, and for the areas where we fell short, we continue to dedicate resources to ensure achievement of our aspirations as envisioned in our strategy.

During the period, we made concerted efforts to enhance customer service across all our units. I led customer engagement initiatives nationwide, meeting with key corporate and retail customers to collect direct feedback on how we can improve the value of our existing products and develop new offerings.

Digital Transformation

The automation of key processes, the rollout of more products on our self-service channels, and the review of loan application processes continued to support our customer-first agenda and reduce friction points. A notable digital initiative we worked on during the year was the introduction of salary advance products on the CB Konnect platform.

This innovative offering enables fully registered Credit Bank account holders to seamlessly apply for Salary Loans online via the user-friendly USSD platform or the CBKonnect mobile application. This feature is now operational. Our market-leading solutions and strong internal talent played a crucial role in strengthening our trade finance portfolio, successfully signing up numerous new corporate clients

Capital Adequacy

To further strengthen our capital position, we plan to increase our investment in government securities to lock in higher interest rates on these risk-free instruments. By holding these securities to maturity, we aim to avoid mark-to-market losses as rates potentially decline.

Sustainability and Employee Culture

We are committed to embedding sustainability throughout our operations, dedicating substantial resources to integrate sustainable practices. This includes enhancing resource efficiency by implementing energy efficient lighting across all our branches and reducing our overall carbon footprint.

Educating our staff about the importance of these Environmental, Social, and Governance (ESG) initiatives has been a significant priority. We have also invested significantly in our talent pool to ensure our employees feel valued and have clear career progression paths. Additionally, we are dedicated to fostering diversity and inclusion within our workplace, further enhancing our organizational culture.

Going Forward

Our strategy for medium-term growth focuses on five key pillars: fostering a culture of innovation, building internal resilience, and ensuring swift execution; advancing our technological capabilities for future readiness; and enhancing our risk resilience to effectively manage emerging challenges. This approach enables us to deliver customer-centered value propositions and leverage group capabilities for efficient scalability. Simultaneously, we are committed to investing in the well-being and growth of our employees, empowering them to thrive both professionally and personally. These efforts are essential in fulfilling our purpose and driving sustainable growth in the years ahead.

As we continue to navigate through 2024, I remain hopeful. We have built enough resilience to absorb any unforeseen shocks and are well-positioned to seize emerging opportunities. I would like to thank the Chairman and members of the Board for their continued guidance and support. I also recognize and appreciate the immense support from our shareholders, esteemed customers, and other stakeholders. Your loyalty and unwavering support are invaluable as we stride towards elevating Credit Bank into a Tier II lender.

> **Putting the customer first by ensuring excellent service at every touchpoint, accelerating our digital transformation, and driving operational efficiency.**

Conclusion

In conclusion, Credit Bank has grown over the past couple of years, not only to withstand market volatility but also to support future growth. We have worked tirelessly to streamline operations, contain costs, and make crucial investments in technology and staff capacity. Our focus on customer-centricity has earned us several accolades, including the CSR 100 Award, the Accenture 11th Gender Mainstreaming Award, and the ESG Awards by KENCTAD.

We see even greater opportunities in delivering for our customers through strategic partnerships that will allow us to expand our offerings and access new markets. On our efforts to rethink regional strategy and increase results and market penetration, we have focused on diaspora banking products and services. The heightened awareness has enabled us to forge strategic partnerships aimed at not only growing our diaspora portfolio but also expanding our involvement in the remittance space. Some of these notable partnerships include International Fund for Agricultural Development (IFAD), RIA Money Transfer (globally), Our partnerships with RIA Money Transfer, Kenya Post Office Savings Bank, and the International Finance for Agriculture (IFAD) demonstrate our commitment to deepening financial inclusion and delivering impactful products. Strategic partnerships can accelerate innovation and enhance competitiveness.

As the year continues to unfold, we are positioned now more than ever to take off as opportunities in the economy return. Our commitment to linking profits and purpose remains steadfast, and I am privileged to lead a dedicated and committed team towards sustainable growth and success.

Thanking You,

Betty Korir
Chief Executive Officer

Aiming high to serve you better!

Safeguard Their Future With an **Elimisha Plan**

Life Happens. Do not let that get in the way of your children's potential. Secure their future with our education plan. ***Save for them, safeguard their future.***

Get in touch with us today to get your ***Elimisha Plan***.

Credit Bank
Bancassurance
Intermediary
Be Sure. Be Covered.

LIBERTY
In it with you

Underwritten by Liberty Life Assurance

+254 709 072 000
bancassurance@creditbank.co.ke
www.creditbank.co.ke

Credit Bank
My Friend, My Bank

Non-Financial **Highlights**

Customer Interactions

2022	9,347
2023	27,855

Customer Satisfaction

90%	2022
90%	2023

Total Number of Staff

	M	F
2022	123	93
2023	119	95

Net Promoter Score

31.2	2022
33	2023

Total Number of Branch Transactions

2022	8%
2023	6.8%

Total Number of Transactions on our channels

92%	2022
93.2%	2023

Transactions Branch(Volume)

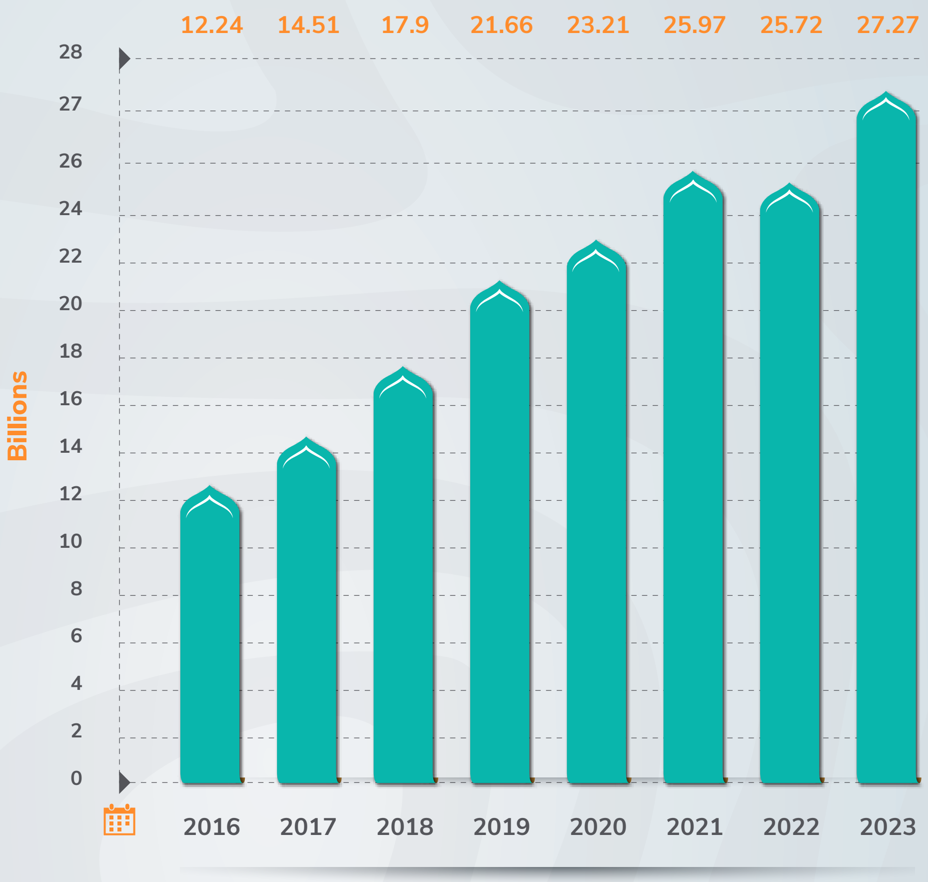
43%

Transactions Digital(Volume)

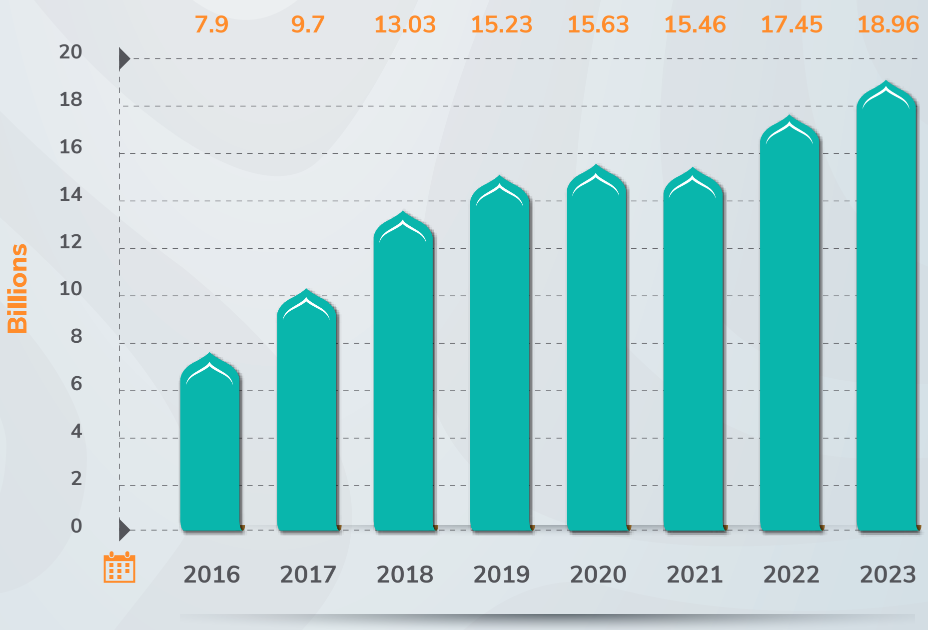
57%

Group Financial **Highlights**

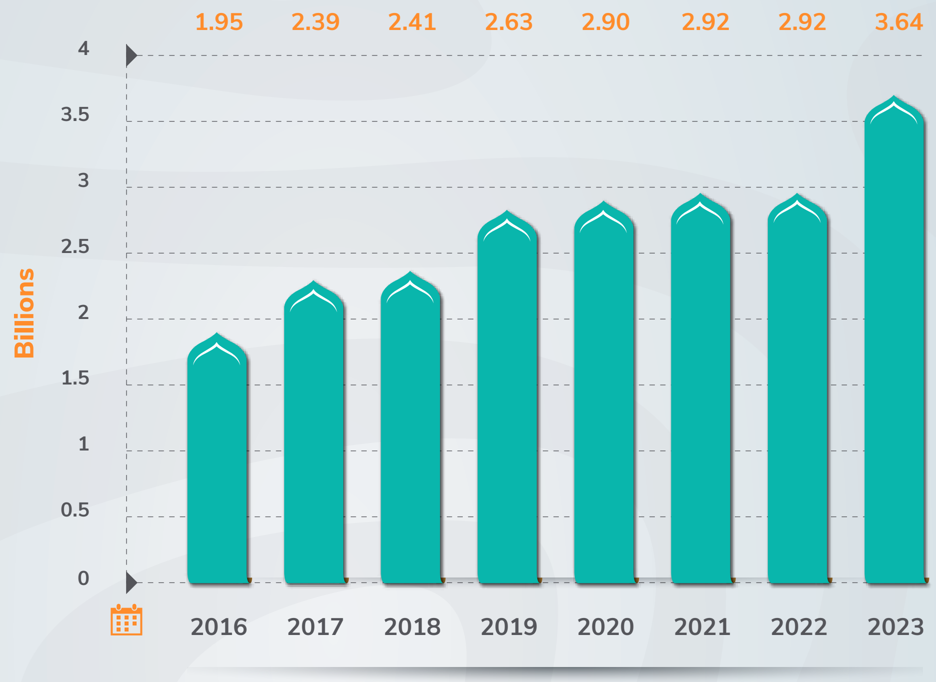
Total Assets



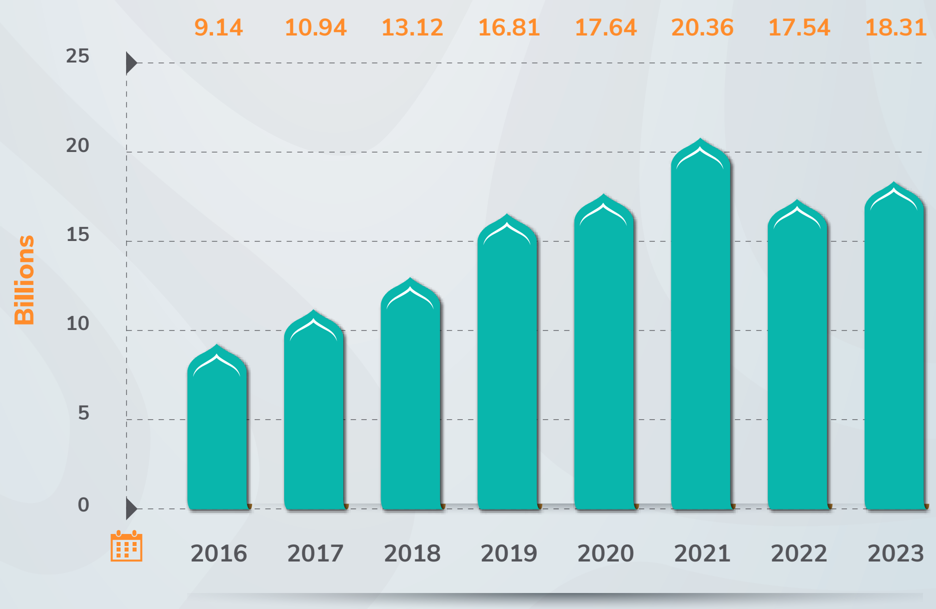
Loan Book (Net)



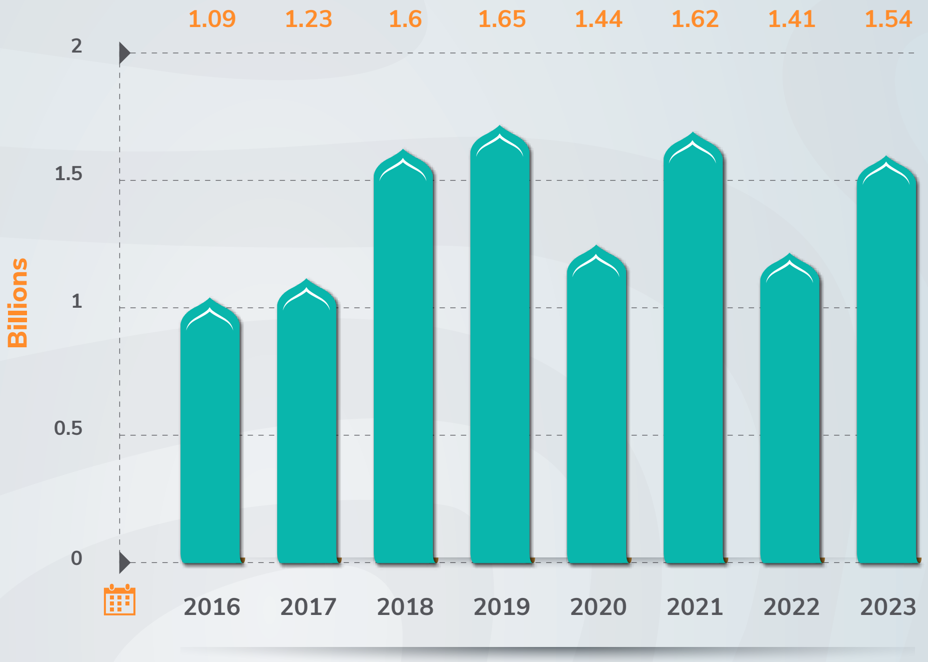
Share Capital



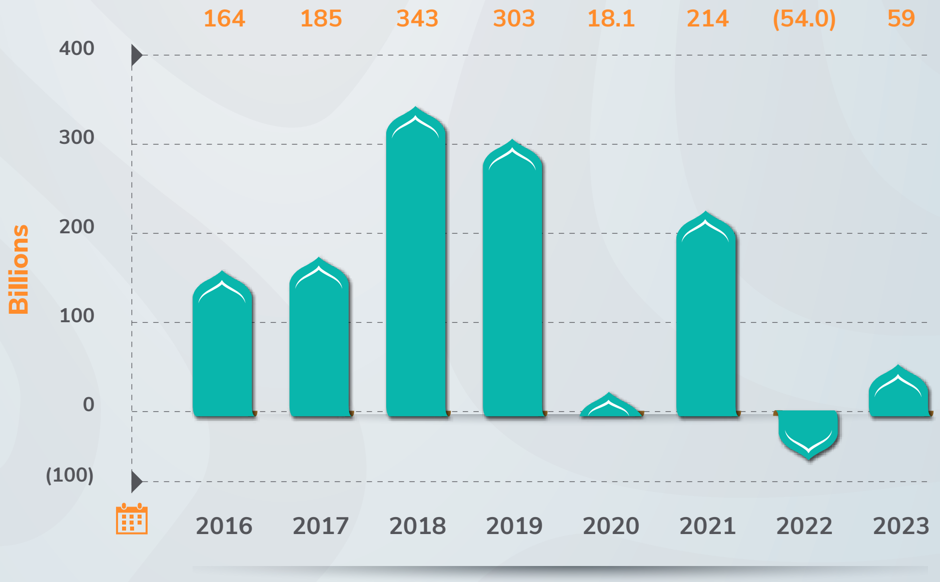
Deposits



Operating Income



Profit Before Tax



Shareholders' Funds

Financial Solutions **Beyond the Ordinary.**

Our Journey

1986

Credit Kenya Limited was incorporated as a financial institution headquartered at Canon House.

1994

Licensed to operate as a fully-fledged commercial bank with our head office relocating to Mercantile House, Koinange Street.

1995 - 2004

'95 – Koinange Branch Opens.
'99 – Launch of the Micro-Banker.
Core Banking and opening of Kisumu Branch.
'01 – Nakuru Giddo Branch Opens.

2006 - 2010

'06 – Core Banking System Upgrade to Bankers Realm.
'09 – Awarded as third most affordable bank (Banking Survey Awards).
'10 - Rebrands, Westlands Branch opens, 2nd Runners Up in Customer Satisfaction (Banking Survey Awards).

2011 - 2014

'11 - Awarded 3rd Best Bank in Recoveries and opening of Industrial Area branch.
'12 - Core banking system upgraded to T24 R11, mobile banking launched, and Nakuru Kenyatta Avenue branches open.
'13 - Opening of Eldoret, Rongai, Nyali Centre Branches and launching of MyFriend Insurance Agency.
'14 - Launching of Internet Banking and opening of Lavington, Machakos and Kitengela branches.

2015 - 2016

'15 – Mobile banking system upgraded
'16 – Enterpreneur's Hub, VISA EMV Compliant Cards and Customer Experience Centre launched. Opening of Ngong Road and Mombasa Town branches.

2017 - 2018

'17 – Betty Korir is appointed the CEO of the Bank, core banking system upgraded to T24 R17 and won three Banking Survey Awards.
'18 - Ventured into Agribusiness Financing, won three Think Business Awards and one CFI.co Award.

2019 - 2020

Relocation of HQ to One Africa, Westlands and opening of new Executive Branch at One Africa, Westlands.
International Business Magazine Awards:
Best SME Bank in Kenya 2020.
Best Mobile Banking Provider 2020.

2021

Energy Management Awards, Banking and Finance Sector Winner, The Accenture 9th Gender Mainstreaming Award
Think Business Awards, Customer Centric Bank, Trade Finance, Affordable Borrowing Solutions

2022

Think Business - First Runner Up, Best Bank in Digital Banking
CSR 100 Award - Best in Entrepreneurship Skills Development Initiatives
IFAD Partnership - enhancing financial inclusion for rural remittance families in Kenya.
Ria Money Transfer Partnership - You can now transfer money back home to any of our branches.

2023

CSR 100 AWARD 2023 - Credit Bank scooped the Silver Mark Award in recognition of Excellence in Enterprise Information Technology Adoption, Entrepreneurship & Skills Development Initiatives in 2023 at the CSR 100 Awards.
The Global Economics - Credit Bank won at The Annual Global Economics Awards 2024, London, UK as the Best Bank For SMEs.

11th Gender Mainstreaming Awards 2023 - Credit Bank won at The Accenture 11th Gender Mainstreaming Awards!!

- First Award; Credit Bank was 2nd in the Economic Empowerment East Africa category!!
- Second Award; Our C.E.O, Mrs. Betty Korir, was awarded as the Overall Winner, Inclusive Leader East Africa category!!

Kenya ESG Awards 2024 - Credit Bank PLC emerged as the winner (No. 1) at the Kenya ESG Awards 2023–2024, Ethical Finance Institution category, hosted by KENCTAD.

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Get *ahead* of end-month with an instant refill with our **Salary Advance Loan**. Instant processing on CB Konnect App or *669# for eligible customers.

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customerservice@creditbank.co.ke
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My Friend, My Bank

Partnerships that Spur Accessibility

The Affordable Remittances and Enhanced Financial Inclusion Program, co-funded by IFAD and the European Union, aims to improve financial inclusion and provide cost-effective remittance solutions for Kenyans both in the diaspora and at home. By collaborating with financial service providers like Interswitch, SACCOS, KDA and RIA Money Transfer, the program develops tailored financial services to deliver vital financial resources to rural communities, enhancing their economic productivity and financial inclusion.

Unleashing your Financial Freedom.

Key Objectives and Achievements:

1. **Enhance Access to Financial Services for Kenyans in the Diaspora**

   Digital Onboarding: Implemented an e-KYC system to remotely onboard diaspora customers, providing access to a comprehensive package of financial services, including remittances and savings.

   Upgraded Diaspora Account: Transformed the Nyumbani account into a comprehensive diaspora package based on market analysis and consumer preferences.

2. **Provide Affordable Digital Remittance Solutions through RIA**

   Competitive Tariffs: Partnered with RIA Money Transfer to offer lower-cost remittance transactions from Germany and Uganda to Kenya. Fees are only charged to end users with no additional margins, reducing costs significantly compared to market benchmarks.

3. **Facilitate Banking Services for Unbanked Remittance Receivers**

   Entry-Level Bank Accounts: Introduced an entry-level bank account for remittance receivers to simplify the process of collecting remittances with no additional costs. This initiative resulted in 782 new accounts opened by remittance customers.

4. **Extend Remittance Services to Rural Areas through SACCOs**

   Partnership with SACCOs: Partnered with two SACCOs (Skyline & Solution) to provide both cash and digital remittance services in rural areas under a sub-agency agreement with Credit Bank.

5. **Improve Financial Literacy among Rural Remittance Receivers**

   Educational Programs: Conducted financial literacy programs on budgeting, financial tools, payments, remittances, and savings for 479 Skyline SACCO members.

   Training of Trainers (TOT): Trained 19 Skyline SACCO staff to become financial literacy ambassadors through a comprehensive Training of Trainers approach.

Impact and Future Directions

The program has successfully reduced remittance costs, increased financial access, and improved financial management capabilities among rural populations. By leveraging digital platforms and strategic partnerships, the initiative supports economic growth and enhances the livelihoods of many Kenyan families. Future efforts will focus on scaling these solutions to reach more rural communities and continually improving financial literacy and inclusion.

Some of Our **Activities**

Customer Service Week

We go the extra mile for our customers to ensure they are heard, appreciated and valued!

Some of Our **Awards**

The Accenture 11th Gender Mainstreaming Award, 2023

As we drive the agenda of financial inclusion, our efforts got noticed. Credit Bank bagged this award as the finalist in the Economic Empowerment East Africa category.

ESG AWARD 2024

Credit Bank emerged as the winner at the Kenya ESG Awards 2023-2024, Ethical Finance Institution category, hosted by KENCTAD at the Trademark Hotel, Nairobi

Board of Directors

The following directors held office during the year to the date of our report:

Mr Moses M. Mwendwa	**Chairman**
Mrs Betty Korir	**Chief Executive Officer**
Mrs. Grace Nyachae	
Mr Ketan D. Morjaria	**Resigned on 31st May 2023**
Mr Jay Karia	**Resigned on 31st May 2023**
Robinson N. Gachogu	
Dr James S Mathenge	
Mr Leon Nyachae	
Mr Jack Ngare	
Mrs Elizabeth Musyoki	

Company Secretary

Robert Ndungu
Plot No LR No. 1870/X/45,
One Africa Place Waiyaki Way, Westlands
P.O Box 61064 00200
Nairobi, Kenya

Registered Address and Headquaters

Plot No LR No. 1870/X/45,
One Africa Place Waiyaki Way, Westlands
P.O. Box 61064 00200
Nairobi, Kenya

Independent Auditor

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

Principal Banker

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000 – 00200
Nairobi, Kenya

Directors' Report

The directors submit their report together with the audited financial statements of Credit Bank PLC (the Bank) and its subsidiary (together the group) for the year ended 31 December 2023.

Incorporation

The Company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 35.

Directorate

The directors who held office during the year and to date of this report are set out on page 35.

Principal Activities

The Group is engaged in the business of banking and provision of related services as well as provision of Bancassurance services.

Financial Results and Dividend

The Group Profit for the year of Shs 32,400,000 (2022: loss of Shs 1,683,000) has been added to the accumulated loss position. The directors do not recommend payment of a cash dividend (2022: Nil)

Business Review

The interest income recorded 20% increase from Shs 2.63 billion to KShs 3.15 billion. This is mainly due to a 9% growth in net loan book and review of the lending rates.

Forex income increased by 114% from Shs 147 million to Shs 315 million due to increased volumes of foreign exchange forward spots and sales volume.The growth in this income can also be attributed to the weakening shilling against the US Dollar.Within the year 2023, the Kenyan Shilling lost 25% of its value exchanging at Shs 155.60 to the dollar (2022: Shs 124.55)

The Bank's loan loss provisions charge in the year grew by 20% to Shs 351 million (2022: Shs 292 million) mainly due to growth in Non Performance Loans.

Global Economic Outlook

According to IMF, global economy continues to recover slowly from the blows of the pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. In retrospect, the resilience has been remarkable. Despite the disruption in energy and food markets caused by the war, and the unprecedented tightening of global monetary conditions to combat decades-high inflation, the global economy has slowed, but not stalled. Yet growth remains slow and uneven, with growing global divergences. The global economy is limping along, not sprinting. IMF baseline forecast is for global growth to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024, well below the historical (2000–19) average of 3.8 percent. Advanced economies are expected to slow from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024 as policy tightening starts to bite. Global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024, due to tighter monetary policy aided by lower international commodity prices. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases. IMF Advises all countries to aim to limit geoeconomic fragmentation that prevents joint progress toward common goals and instead work toward restoring trust in rules-based multilateral frameworks that enhance transparency and policy certainty and help foster a shared global prosperity. A robust global financial safety net with a well-resourced IMF at its center is essential.

Local Economic Outlook

IMF projects Kenya's economy to grow by 5% in 2023 from 4.8% in 2022. The projected growth is a 0.2% improvement. Economic activity is estimated to accelerate to 5.3% in 2024 according to the latest IMF analysis. Kenya's overall inflation remained broadly unchanged at 6.8 percent in September 2023, compared to 6.7 percent in August, which is within the government's target range. Food inflation rose to 7.9% in September from 7.5% on account of increased prices of some vegetables. Fuel inflation however remained elevated at 13.1% .IMF Projects Kenya inflation at 6.6% in 2024.

Interest Rates

With inflation hitting the roof, Central Bank has resulted to the fiscal measures to control money in circulation The CBK adjusted Central Bank Rate (CBR) from 10.5% to 12.50% on 05th December 2023 to address the pressures on the exchange rate and mitigate second round effects including from global prices and to ensure that inflationary expectations remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range. Growth in private sector credit remained relatively stable at 12.5 percent in October 2023 and 12.2 percent in September. Strong credit growth was observed in the following sectors: manufacturing (18.4 percent), transport and communication (16.2 percent), trade (9.9 percent), and consumer durables (10.8 percent).

The Group continues to operate in an environment with increased competition from innovations and inventions in financial technological development companies that have aggressively edged the Banking space and disrupting traditional banking. The Bank however took up this challenge positively through strategic partnership with the telecommunication companies to afford convenience to customers leading to financial inclusion which is working well for the Bank. Regulatory requirements has also increased the cost of compliance coupled with cyber crime risk both locally and internationally.

During the year, the Group's balance sheet grew by 6% from Kes 25.81billion to Kes 27.32 billion. The Group realized a return on asset of 0.12% (2022:(0.01%), Return of equity 0.81% (2022:-0.05%) and the cost to income ratio of 96.8% (2022:104%).

Principal Risks and Uncertainties

The Banks principal risks and uncertainties together with processes that are in place to monitor and mitigate those risks where applicable can be found under Note 4 to the financial statements.

Statement as to Disclosure to the Company's Auditor

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

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

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

Events After Year End

There have been no events after the reporting date that require adjustment or disclosure to these financial statements.

By Order of the Board
CPS Robert Ndungu (DCDM Registrars)

Secretary
26th March 2024

Statement of Corporate Governance

The Board of Directors of Credit Bank PLC (or the "Board") is committed to ensuring compliance with all guidelines on corporate governance issued by the Centre for Corporate Governance and the Central Bank of Kenya ("CBK").

The Bank conducts business ensuring compliance with the code of conduct for Directors and senior management as per the CBK prudential guidelines, best practice and professional ethics.

The Bank has a Board Charter which outlines the principal role of the Board, the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of the Bank and matters reserved for final decision-making or pre-approval by the Board; and the policies and practices of the Board in conducting its business.

Shareholders

The shareholders appoint the Directors of the Bank and hold the Board accountable and responsible for efficient and effective governance of the Bank. It is also their role to appoint the statutory auditors of the Bank.

Board Evaluation

Evaluation of the directors of the Board and the Board committees was done during the year and found to be effective. The Board is fully aware of the latest developments in the regulatory environment, risk management and market conditions. The directors maintained excellent communication amongst themselves and with the senior management.

Attendance of Board meetings during the year is summarised below:

Name	16 Mar 2023	23 Jun 2023	20 Sept 2023	04 Dec 2023
Moses M. Mwendwa	P	P	P	P
Grace Nyachae	P	P	P	P
Ketan D. Morjaria	P	NA	NA	NA
Jay Karia	P	NA	NA	NA
Robinson N. Gachogu	P	P	P	P
Leon Nyachae	AP	P	P	P
James S Mathenge	P	P	P	P
Jack Mugo Ngare	P	P	P	P
Elizabeth Musyoki	P	P	P	P
Betty Korir	P	P	P	P

P = Present, A = Absent, AP=Apology, NA=Not Appointed

Board of Directors

The Board consists of Chief Executive Officer and seven non-executive directors as listed on page 35 of the annual report. The directors have diverse professional and business background and experience, and have provided valuable stewardship for the Bank. The Board meets at quarterly intervals in the year or as and when need arises. During the year, the Board held four meetings.

To ensure that the Board remains efficient and effective while discharging its responsibilities, annual Board assessment and peer review on performance is undertaken.

The Board has delegated the authority of day-to-day management to the Chief Executive Officer but retains the overall responsibility for financial and operating decisions as indicated in the 'Statement of directors responsibilities'. The Board has access to the Company Secretary who attends Board meetings on a regular basis and has set up various sub Board committees which operate in accordance with clearly set terms of reference. These sub committees report to the Board on periodic intervals and on circulation basis. They include the Board Credit Committee, the Board Audit Committee, the Board Risk Committee, the Board Executive Committee, the Board Operations Committee and Board Nominations & Remuneration Committee. All Board committees consist of at least two non-executive directors one of whom is the Chair.

Board Credit Committee

The Board Credit Committee reviews and oversees the overall lending of the Bank by ensuring compliance to Bank's lending policy guidelines and limit structures. The committee also ensures adequate credit impairment provisions are held in line with the CBK prudential guidelines and oversees reviews of overall lending policies and limit structures of the Bank.

Board Audit Committee

The role of the Board Audit Committee is to enhance effectiveness of internal and external audit functions, monitoring management's compliance with relevant legislations and regulatory requirements. It also monitors the effectiveness and compliance of the Bank's approved policies and procedures with the objective of strengthening the management information systems and internal controls. The committee meets at quarterly intervals.

Board Risk Committee

The committee is responsible for devising policies and procedures for identification, measurement, monitoring and control of all risk categories. The committee ensures that the Bank has clear, comprehensive and well-documented policies and procedure guidelines relating to all areas of operation and the relevant staff fully understand those policies. The committee identifies, analyses and evaluates risks, formulates appropriate responses, ensures tracking and reporting of risks to provide assurance regarding the achievement of objectives within the risk levels accepted by the Board. The committee meets at quarterly intervals.

Board Executive Committee

The Board Executive Committee has an oversight role on Management committees over execution of Board's policy directives and strategy. The Committee reviews and monitors progress on the bank's strategic plans, operational initiatives, marketing and Business development as approved by the Board and ensures that the Bank adheres to CBK prudential guidelines on capital adequacy, liquidity and market risk management.

Board Nominations & Remuneration Committee

The Board Nominations & Remuneration committee is responsible for all aspects of appointment of the Bank's directors and Senior Management. It also oversees the compensation system's design and operation on behalf of the Board of Directors. The committee is constituted to enable it exercise competent and independent judgment on compensation policies and practices with majority of its members being independent non-executive directors with substantial knowledge about compensation arrangements. The Committee strategizes on the Bank's human resources development and optimisation in line with the Board's objectives and human capital management.

For effective delegation, the Chief Executive Officer has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed terms of reference duly approved by the Board. These committees include Management Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Management Credit Committee, Procurement Committee, IT Steering Committee, Risk Management Committee and Product Development Committee. Open and clear communication channels between management and the Board is maintained through the office of the Chief Executive Officer.

Board Operations Committee

Board Operations committee is a board committee that has been mandated with the oversight role over operations of the bank. The committee's main role is to recommend operational strategies and policies to the main board and there after oversee the implementation of the same to ensure a sound, effective and efficient operational environment.

The Bank fully complies with the Banking Act, CBK's prudential guidelines and the Kenyan Companies Act. The Bank ensures that the shareholders and other stakeholders are fully informed of the Bank's performance and activities by distributing its annual report and financial statements and also publishing quarterly reports and notices in the national dailies.

Moses M. Mwendwa
Chairman, Board of Directors
26th March 2024

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

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

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii) Selecting suitable accounting policies and then apply them consistently; and
iii) Making accounting estimates and judgements that are reasonable in the circumstances

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

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

Approved by the board of directors on 26 March 2024 and signed on its behalf by:

Mwendwa

Moses M. Mwendwa
Chairman, Board of Directors

Betty Korir
Chief Executive Officer

Independent Auditor's Report to the Shareholders of Credit Bank PLC

Report on the Audit of the Group and Bank Financial Statements

Opinion

We have audited the accompanying financial statements of Credit Bank Plc (the "Bank") and its subsidiary (together, the "Group") set out on pages 46 to 120, which comprise the consolidated statement of financial position at 31 December 2023 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Bank statement of financial position at 31 December 2023, Bank statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the Bank for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Group and Bank as at 31 December 2023 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for Opinion

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

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

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

Other Information

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

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

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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and 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 Group and/or 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

Independent Auditor's Report to the Shareholders of Credit Bank PLC (Continued)

Report on Other Matters Prescribed by the Companies Act, 2015

In our opinion the information given in the directors' report on pages 36 and 37 is consistent with the financial statements.

Richard Njoroge

FCPA Richard Njoroge, Practising Certificate Number 1244
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

28 March 2024

Financial
Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income	Notes	2023 Shs '000	2022 Shs '000
Interest income	5	3,149,489	2,628,448
Interest expense	6	(1,826,505)	(1,485,069)
Net interest income		1,322,984	1,143,379
Fees and commission income	7	203,691	299,941
Trading income	7	315,488	147,108
Other income	7	49,003	108,787
Allowance of expected credit losses	8	(351,181)	(292,444)
		217,001	263,392
Net operating income		1,539,985	1,406,771
Employee benefits	9	(720,570)	(713,490)
Other operating expenses	10	(514,528)	(475,522)
Directors' expenses		(74,113)	(77,038)
Depreciation of property and equipment	20	(55,108)	(59,332)
Amortisation of right-of-use asset	26	(84,248)	(88,149)
Amortisation of intangible assets	21	(32,508)	(47,280)
Operating expenses		(1,481,075)	(1,460,811)
Profit/(Loss) before income tax		58,910	(54,040)
Income tax (expense)/credit	11	(26,510)	52,357
Profit/(Loss) for the year		32,400	(1,683)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss			
Fair value movements on FVOCI financial assets, net of tax	31	(15,706)	(44,427)
Total comprehensive income/(loss) for the year, net of tax		16,694	(46,110)

Bank Statement of Profit or Loss and Other Comprehensive Income	Notes	2023 Shs '000	2022 Shs '000
Interest income	5	3,149,489	2,628,448
Interest expense	6	(1,831,887)	(1,489,292)
Net interest income		1,317,602	1,139,156
Fees and commission income	7	184,309	281,617
Trading income	7	315,488	147,108
Other income	7	49,003	108,787
Allowance of expected credit losses	8	(351,181)	(292,444)
		197,619	245,068
Net operating income		1,515,221	1,384,224
Employee benefits	9	(711,199)	(704,141)
Other operating expenses	10	(510,143)	(473,857)
Directors' expenses		(74,113)	(77,038)
Depreciation of property and equipment	20	(55,096)	(59,311)
Amortisation of right-of-use asset	26	(84,248)	(88,149)
Amortisation of intangible assets	21	(32,508)	(47,280)
Operating expenses		(1,467,307)	(1,449,776)
Profit/(Loss) before income tax		47,914	(65,552)
Income tax (expense)/credit	11	(23,142)	55,847
Profit/(Loss) for the year		24,772	(9,705)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss			
Fair value movements on FVOCI financial assets, net of tax	31	(15,706)	(44,427)
Total comprehensive income/(loss) for the year, net of tax		9,066	(54,132)

Consolidated Statement of Financial Position	Notes	2023 Shs '000	2022 Shs '000
Assets			
Cash and balances with Central Bank of Kenya	13	1,369,603	1,305,381
Financial assets at FVOCI	14	248,138	327,039
Financial assets at amortised cost	15	4,601,698	4,608,699
Deposits and balances due from banking institutions	16	522,017	538,053
Loans and advances to customers	17	18,961,401	17,451,135
Other assets and prepaid expenses	18	699,797	568,443
Property and equipment	20	184,848	226,990
Intangible assets	21	86,296	100,029
Right-of-use assets	26	190,329	278,099
Deferred income tax	19	268,652	250,155
Current income tax		141,428	159,195
Total assets		27,274,207	25,813,218
Liabilities			
Deposits and balances due to banking institutions	23	3,552,109	3,358,544
Customer deposits	24	18,314,873	17,536,871
Other liabilities	25	470,316	381,430
Lease liabilities	27	215,248	331,334
Borrowings	28	695,024	896,743
Total liabilities		23,247,570	22,504,922
Shareholders' equity			
Share capital	29	3,644,964	2,915,971
Share premium	29	60,411	87,757
Regulatory reserve	30	1,542,515	1,687,559
Retained earnings		(1,129,318)	(1,306,762)
Fair value reserve	31	(91,935)	(76,229)
Shareholders' equity		4,026,637	3,308,296
Total equity and liabilities		27,274,207	25,813,218

The financial statements on pages 46 to 120 were approved for issue by the Board of Directors on 26th March 2024 and signed on its behalf by:

Moses M. Mwendwa
Chairman, Board of Directors

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Bank Statement of Financial Position	Notes	2023 Shs '000	2022 Shs '000
Assets			
Cash and balances with Central Bank of Kenya	13	1,369,603	1,267,685
Financial assets at FVOCI	14	248,138	327,039
Financial assets at amortised cost	15	4,601,698	4,608,699
Deposits and balances due from banking institutions	16	522,017	538,058
Loans and advances to customers	17	18,961,401	17,451,135
Other assets and prepaid expenses	18	647,976	516,853
Property and equipment	20	184,822	226,952
Intangible assets	21	86,296	100,029
Right-of-use assets	26	190,329	278,099
Deferred income tax	19	267,542	250,085
Investment in subsidiary	22	5,000	5,000
Current income tax		133,951	152,009
Total assets		27,218,773	25,721,643
Liabilities			
Deposits and balances due to banking institutions	23	3,552,109	3,358,544
Customer deposits	24	18,363,847	17,536,871
Other liabilities	25	414,546	330,864
Lease liabilities	27	215,248	331,334
Borrowings	28	695,024	896,743
Total liabilities		23,240,774	22,454,356
Shareholders' Equity			
Share capital	29	3,644,964	2,915,971
Share premium	29	60,411	87,757
Regulatory reserve	30	1,542,515	1,687,559
Retained earnings		(1,177,956)	(1,347,771)
Fair value reserve	31	(91,935)	(76,229)
Shareholders' equity		3,977,999	3,267,287
Total equity and liabilities		27,218,773	25,721,643

The financial statements on pages 46 to 120 were approved for issue by the Board of Directors on 26th March 2024 and signed on its behalf by:

Moses M. Mwendwa
Chairman, Board of Directors

Dr. James Stanley Mathenge
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Consolidated Statement of Changes in Equity	Notes	Share Capital Shs '000	Share Premium Shs '000	Retained Earnings Shs '000	Regulatory Reserve Shs '000	Fair value Reserve Shs '000	Total Shs '000
Year ended 31 December 2022							
At start of year		2,915,971	94,639	(1,305,079)	1,687,559	(31,802)	3,361,288
Total comprehensive income for the year							
Profit for the year		-	-	(1,683)	-	-	(1,683)
Fair value movement on investments at FVOCI		-	-	-	-	(44,427)	(44,427)
Total comprehensive loss for the year		-	-	(1,683)	-	(44,427)	(46,110)
Transactions with owners							
Share issue costs		-	(6,882)	-	-	-	(6,882)
At end of year		2,915,971	87,757	(1,306,762)	1,687,559	(76,229)	3,308,296
Year ended 31 December 2023							
At start of year		2,915,971	87,757	(1,306,762)	1,687,559	(76,229)	3,308,296
Total comprehensive income for the year							
Profit for the year		-	-	32,400	-	-	32,400
Other comprehensive income		-	-	-	-	(15,706)	(15,706)
Total comprehensive income for the year		-	-	32,400		(15,706)	16,694
Transfer to statutory credit risk reserve	30	-	-	145,044	(145,044)	-	-
Transactions with owners							
Issue of share capital	29	728,993	-	-	-	-	728,993
Share issue costs		-	(27,346)	-	-	-	(27,346)
At end of year		3,644,964	60,411	(1,129,318)	1,542,515	(91,935)	4,026,637

Bank Statement of Changes in Equity	Notes	Share Capital Shs '000	Share Premium Shs '000	Retained Earnings Shs '000	Regulatory Reserve Shs '000	Fair value Reserve Shs '000	Total Shs '000
Year ended 31 December 2022							
At start of year		2,915,971	94,639	(1,338,067)	1,687,559	(31,802)	3,328,300
Total comprehensive income for the year							
Profit for the year		-	-	(9,705)	-	-	(9,705)
Fair value movement on investments at FVOCI		-	-	-	-	(44,427)	(44,427)
Total comprehensive loss for the year		-	-	(9,705)	-	(44,427)	(54,132)
Transactions with owners							
Share issue costs		-	(6,882)	-	-	-	(6,882)
At end of year		2,915,971	87,757	(1,347,772)	1,687,559	(76,229)	3,267,286
Year ended 31 December 2023							
At start of year		2,915,971	87,757	(1,347,772)	1,687,559	(76,229)	3,267,286
Total comprehensive income for the year							
Profit for the year		-	-	24,772	-	-	24,772
Other comprehensive income		-	-	-	-	(15,706)	(15,706)
Total comprehensive income for the year		-	-	24,772	-	(15,706)	9,066
Transfer to statutory credit risk reserve	30	-	-	145,044	(145,044)	-	-
Transactions with owners							
Issue of share capital	29	728,993	-	-	-	-	728,993
Share issue costs		-	(27,346)	-	-	-	(27,346)
At end of year		3,644,964	60,411	(1,177,956)	1,542,515	(91,935)	3,977,999

Consolidated Statement of Cash Flows	Notes	2023 Shs '000	2022 Shs '000
Cash flows from operating activities			
Interest receipts		2,892,852	2,628,448
Net fees and commissions receipts		203,692	299,941
Interest paid		(1,826,505)	(1,489,292)
Foreign exchange income		315,488	147,108
Payments to employees and suppliers		(1,454,585)	(1,354,197)
Income tax paid		(9,901)	(99,609)
Other income received		49,003	108,787
Cash flows from operating activities before changes in operating assets and liabilities		170,044	241,186
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(1,510,266)	(2,605,752)
- other assets and prepaid expenses		(113,586)	(80,319)
- Central Bank of Kenya cash reserve requirement	34	(20,972)	72,877
- deposits and balances due to banking institutions		193,565	2,858,926
- customer deposits	20	778,002	(2,828,027)
- other liabilities		212,304	25,160
Net cash flows from operating activities		(290,909)	(2,315,949)
Cash flows from investing activities			
Net proceeds from financial assets at amoritised cost		7,001	(696,544)
Purchase of financial assets at FVOCI	20	78,901	943,075
Purchase of property and equipment	21	(9,427)	(12,042)
Purchase of intangible assets		(18,775)	(38,229)
Net cash flows from investing activities		57,700	196,260
Cash flows from financing activities			
Proceeds from issue of shares	29	701,647	(6,882)
Proceeds from borrowings (repayments)	28	(441,223)	(161,000)
Net cash flows from financing activities		260,424	(167,882)
Net increase in cash and cash equivalents		27,215	(2,046,384)
Cash and cash equivalents at start of year		1,157,690	3,204,074
Cash and cash equivalents at end of year		1,184,905s	1,157,690

Bank Statement of Cash Flows	Notes	2023 Shs '000	2022 Shs '000
Cash flows from operating activities			
Interest receipts		2,892,852	2,628,448
Net fees and commissions receipts		184,309	281,617
Interest paid		(1,831,887)	(1,489,292)
Foreign exchange income		315,488	147,108
Payments to employees and suppliers		(1,420,665)	(1,343,184)
Income tax paid		(8,197)	(98,028)
Other income received		49,003	108,787
Cash flows from operating activities before changes in operating assets and liabilities		180,903	235,456
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(1,510,266)	(2,605,751)
- other assets and prepaid expenses		(130,517)	(71,330)
- Central Bank of Kenya cash reserve requirement	34	(20,972)	72,877
- deposits and balances due to banking institutions		193,565	2,858,926
- customer deposits	20	826,976	(2,828,027)
- other liabilities		207,099	19,258
Net cash flows from operating activities		(253,212)	(2,318,590)
Cash flows from investing activities			
Net proceeds from financial assets at amortised cost		7,001	(696,544)
Purchase of financial assets at FVOCI	20	78,901	943,075
Purchase of property and equipment	21	(9,427)	(12,042)
Purchase of intangible assets		(18,775)	(38,229)
Net cash flows from investing activities		57,700	196,260
Cash flows from financing activities			
Proceeds from issue of shares	29	701,647	(6,882)
Proceeds from borrowings (repayments)	28	(441,223)	(161,000)
Net cash flows from financing activities		260,424	(167,882)
Net increase in cash and cash equivalents		64,912	(2,054,755)
Cash and cash equivalents at start of year		1,119,993	3,174,748
Cash and cash equivalents at end of year		1,184,905	1,119,993

1. General Information

Credit Bank PLC (the "Bank") is incorporated and domiciled in Kenya as a limited liability company. The address of its registered office is set out on page 37.

2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

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

a) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets held at fair value through other comprehensive income.

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

c) Going Concern

The financial statements have been prepared on a going concern basis which assumes that the entity will remain in operation and continue to meet its obligations as they fall due for the foreseeable future.

There has been an improvement in the performance of the Group and Bank in the year ended 31 December 2023. The Group recorded a Profit before tax of Shs. 58.9 million (2022: Loss before tax Shs 54 million). However, the Group is still in an accumulated loss position of Shs. 1.13 billion (2022: Shs.1.31 billion).

The Bank recorded a Profit before tax of Shs. 47.9 million (2022: Loss before tax Shs 65.5 million) and is also in an accumulated loss position of Shs. 1.2 billion (2022: Shs.1.35 billion). Both the bank and the group are in a net asset position of Shs. 3.97 billion and Shs.4 billion respectively.

In June 2023, the Bank received a capital injection of Shs. 728 million from Shorecap III, Ltd which increased the bank's capital and improved the bank's capital ratios. The Bank is now compliant with the minimum regulatory capital ratios compared to a non-compliance in prior year. The Bank's capital ratios are as below:

Details	Required Minimum	31 Dec 2023	31 Dec 2022
Core capital to total deposit liabilities	8.00%	13.68%	9.70%
Core capital to total risk weighted assets	10.50%	11.81%	7.50%
Total capital to total risk weighted assets	14.50%	16.33%	15.10%

At 31 December 2023, the bank's liquidity ratio was at 20.1% (2022:20.5%) against the minimum statutory ratio of 20%.

At 31 December 2023, the Bank's gross non-performing loans increased by Shs 4.1 billion to Shs 8.9 billion (2022:Shs 4.8 billion). Thus, the bank's NPL ratio grew from 29.8% as at 31 December 2022 to 43.8% as at 31 December 2023.

The bank has set out below the actions being taken to address business challenges:

The strategies discussed and adopted include aggressive pursuit of cheap deposits and improvement of the current and savings to fixed deposits ratio. To drive up current and savings deposits, management will leverage digitization in deposit mobilization. It was also noted that there was need to increase outreach and it was resolved that Agency banking that is now live be revamped for customers to access Credit Bank services across the entire country. This is expected to improve cheap deposit mobilization and improve the banks efficiency ratios. Further, the bank shall continue to leverage on trade finance activities to drive its profitability.

Non-Performing Loans (NPLs) Resolution

The Bank continues to make progress in the recovery of non-performing loans and concerted efforts have been deployed on the NPL recovery efforts. There is some progress in the resolution of matters under litigation, completion of stalled projects, (and aggressive sale of the collateral), negotiated settlements, and realisation of collateral either vide private treaty or auction. Due to the weakening of the Local Currency against USD, the banks NPL ratio grew from 29.8% as at 31 December 2022 to 43.6% as at 31 December 2023.

Liquidity Ratio

The bank Liquidity ratio is in compliance although deterioration year on year was noted. Deposit Mobilization, together with aggressive recovery of loans is expected to shore up the banks liquidity.

Based on the above, the directors believe that the going concern assumption is appropriate in the preparation of the financial statements. The directors expect the business to generate enough funds internally to finance its operations and any external funding will be invested in retaining the business.

d) Changes in Accounting Policies and Disclosures

i) International Financial Reporting Standards and Amendments Effective for the First Time for December 2023 Year-Ends

Details	Effective Date	Executive Summary
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 number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. This amendment did not have a material impact on the Group and Bank's financial statements.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction		The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This amendment did not have a material impact on the Group and Bank's financial statements.
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 May 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. This amendment did not have a material impact on the Group and Bank's financial statements.

i) International Financial Reporting Standards, interpretations and amendments issued but not effective

The following standards and interpretations had been issued but were not mandatory for annual reporting period ending 31 December 2023 and have not been early adopted by the Group. They are not expected to have a significant impact on the financial statements.

Details	Effective Date	Executive Summary
Amendments to IAS 1 - Non-current liabilities with covenants	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 periods beginning on or after 1 January 2024 (Published September 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.
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	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.

e) Consolidation

The consolidated financial statements incorporate the financial statements of Credit Bank PLC and its subsidiary; Credit Bank Bancassuarance Intermediary Limited. The financial statements have been made up to 31 December 2023.

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured to its fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

ii) Changes in Ownership Interests in Subsidiaries Without Change of Control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Disposal of Subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

f) Foreign Currency Translation

i) Functional and Presentation Currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya shillings (Shs'000), which is the Bank's presentation currency.

ii) Transactions and Balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Changes in the fair value of monetary assets denominated in foreign currency classified as at-fair-value are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

g) Sales and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are reclassified 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 from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, 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.

h) Financial Assets and Liabilities

i) Classification and Subsequent Measurement

Financial Assets

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Trade receivables that do not have a significant financing component are measured at their transaction price.

The Group classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- Measured at amortised cost;
- FVOCI; and
- FVTPL.

Amortised Cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Group recognises cash, deposits and balances due from financial institutions including items in the course of collection, amounts due from related parties, loans and advances to customers, certain investment securities, and other assets at amortised cost.

The carrying amount of these assets is measured at amortised cost using the effective interest rate method and is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair Value Through other Comprehensive Income (FVOCI) – Debt

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank classifies certain investments it has in government securities at FVOCI.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Fair Value through Other Comprehensive Income (FVOCI) – Equity

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis.

The Bank classifies derivative financial assets at FVOCI.

Fair Value through Profit or Loss (FVTPL)

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group currently has no equity investments held at FVTPL.

A financial asset is classified into one of these categories on initial recognition. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity may apply the OCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considered the contractual terms of its financial assets. The Group, through the Credit, Finance and Treasury departments will from time to time review the contractual terms of existing instruments and also review contractual terms of new products the Group develops or invests in going forward. This includes assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group shall consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

Interest rates on loans made by the Group are based on the prevailing interest rate which currently are referenced to the Central Bank Rate. The prevailing rates are generally based on a Central Bank rate and also include a discretionary spread (Margin). In these cases, the Group has assessed whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Some of the Group's loans may contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

De Minimis

A contractual cash flow characteristic may not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows. To make this determination, the Group considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis have been measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The table below summarises the key features of each type of business model and the resultant measurement category:

Business Model	Key Features	Category
Held to collect	The objective of the business model is to hold assets to collect contractual cash flows. Sales are incidental to the objective of the model. This model typically involves the lowest level of sales in comparison with other business models (in frequency and volume).	Amortised cost[1]
Both held to collect and for sale	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model. This model typically has more sales (in frequency and volume) than the held-to-collect business model.	FVOCI[1]
Other business models, including: trading managing assets on a fair value basismaximising cash flows through sale	The business model is neither held-to-collect nor held to collect and for sale. The collection of contractual cash flows is incidental to the objective of the model.	FVTPL[2]

1. Subject to meeting the SPPI criterion.
2. The SPPI criterion is irrelevant - i.e. assets in all business models are measured at FVTPL.

Financial Liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value. Deposits from customers, borrowed funds and other liabilities are also classified at amortised cost.

Reclassification

The Group only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent and are determined by the Bank's senior management as a result of external or internal changes.

Derecognition and Contract Modification

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Group has recalculated the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss..

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Write-off

The Group writes off financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity
- Where the Group's recovery method is foreclosing on collateral and the value of the collateral is such there is no reasonable expectation of recovering in full.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Interest Income Recognition

According to IFRS 9 paragraph 5.4.1 interest revenue shall be calculated by using the effective interest method (Refer to the Effective Interest Rate (EIR) policy for information on determination of the EIR). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

According to IFRS 9 paragraph 5.4.2 an entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b) (see (b) above), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating). In the context of the Central Bank regulations, credit impaired accounts would refer to the substandard, doubtful and loss risk classifications.

Assets that are Credit-Impaired on Initial Recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract - e.g. a default or past-due event;
- A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event that caused the asset to be credit impaired. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Measurement on Initial Recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate.

Subsequent Measurement

The ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

Modifications

When the contractual cash flows of a POCI asset are modified and the modification does not result in derecognition, the calculation of the modification gain or loss is the difference between:

- the gross carrying amount of the asset before the modification; and
- the recalculated gross carrying amount

The recalculated gross carrying amount is the present value of the estimated future cash payments or receipts through the expected life of the modified financial asset discounted using the credit-adjusted effective interest rate before the modification

ii) Impairment – Financial Assets, Loan Commitments and Financial Guarantee Contracts

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group's loans and advances to customers, Investment in Government securities measured at amortised cost and FVOCI, balances due to group companies and other assets;
- lease and trade receivables – this applies to the Group's finance lease and trade receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Group's off-balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL.

The Group 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.

The Group has recognised loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank has considered a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

Measurement of Expected Credit Losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

For purposes of IFRS 9 there will be no difference between credit impaired and non-performing financial loans as defined by the CBK.

Expected Credit Losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:

- The general approach
- The simplified approach

The simplified approach is applied for trade receivables or contract assets resulting from transactions in the scope of IFRS 15 Revenue from customer contracts or lease receivables resulting from transactions in the scope of IAS 17 Leases. The Bank has therefore applied the general approach.

The General Approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity must make the following assessment at each reporting date:

Stage 1 - For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).

ECL12m = PD12m x LGD12m x EAD12m x D12m

Stage 2 - For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

ECL LT = LT∑T=1 PDt x LGDt x EADt x Dt

Stage 3 – For credit exposures that are credit impaired and in default. Similar to stage 2 assets a loss allowance is required for lifetime ECLs however the probability of default for these assets is presumed to be 100% less any determined recovery and cure rate.

The table below shows the link between the CBK risk classifications and the IFRS 9 stage allocation for assets.

CBK PG/04 Guidelines	Days Past Due	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

Definition of Default

The Group has considered a financial asset to be in default when:

- the borrower is unlikely to pay their 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 will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Bank; or
- if it meets the definition of the local regulator of default, if in the future the local regulator prescribe the criteria of default for IFRS 9 purposes

This definition is largely consistent with the Central Bank of Kenya definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Bank has considered indicators that are:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has not rebutted the 90 Days Past Due (DPD) rule for identifying defaults.

Significant Increase in Credit Risk (SIICR)

The Group 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 Group identifies a significant increase in credit risk where

- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;
- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing exposures:
  - 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.

Credit Risk Classification

The Group allocates each exposure to a credit risk classification based on the regulatory requirements of the Central Bank which requires the prediction of the risk of default and applying experienced credit judgement. The Bank shall use these classifications in identifying significant increases in credit risk under IFRS 9. The risk classifications are defined using the regulator's guidance, days past due, management assessment, qualitative and quantitative factors that are indicative of the risk of default.

These factors may vary depending on the nature of the exposure and the type of borrower. The Bank shall undertake a thorough credit appraisal process and determine the credit quality of each exposure on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk classification.

Determining Whether Credit Risk has Increased Significantly

The Group shall establish a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework shall align with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency (30 DPD presumption).

Quantitative Factors

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being in arrears for a period of 31 to 90 days in accordance with IFRS 9 paragraph 5.5.11. The Bank has developed an internal rating model going forward and movement in rating grades between the reporting period and initial recognition date/the date of initial application of IFRS 9 of the loan will form the basis of significant increase in credit risk.

Qualitative Factors

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 if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. The management view and judgement include the following assessments:

- 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 Group has presumptively considered that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank has determined 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.

Backward Transitions

Backward transitions define the criteria for moving a financial asset back from Stage 2 to Stage 1 or Stage 3 to Stage 2. The Group applies the considerations of the Central Bank prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1. Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2 subject to observation of the cooling off period as defined by the Prudential Guidelines. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six (6) months.

Modified Financial Assets

The contractual terms of a loan may be modified for 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 derecognised and the renegotiated loan recognised as a new loan 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.

Restructuring

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Bank's restructuring policy, loan 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 Group's Credit Committee regularly reviews reports on restructuring activities.

Generally, restructuring 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. Following restructuring, 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.

The Group applies the requirements of the Central Bank prudential guidelines where an account in Doubtful or Sub-standard category (Stage 3) will be upgraded to Watch if principal and interest payments are fully regularised at the point of restructure, the account is re-classified to Watch (Stage 2) and observed for six (6) months. Where the account continues to perform appropriately for an additional six (6) months the account is upgraded to normal and the Bank reverts to measuring 12-month ECLs. Where the account is restructured with the customer having not regularized overdue principal and interest, the account shall remain in Substandard for six (6) months or if in Doubtful category, twelve (12) months for observation. If the restructured account performs as per the new contract during the observation period, the account can be then upgraded to Watch (stage 2) and observed for another six (6) months where it can be further upgraded to Normal (stage 1) if good performance is sustained. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

The Bank restructured 26% of its loan book in the year with the restructure not resulting in derecognition. The following table refers to modified financial assets where modification does not result in derecognition.

Classification	Amount Pre-Restructure Shs '000,000	Modification Gain/Loss Shs '000,000	Amount Post-Restructure Shs '000,000
Stage 1	484	-	484
Stage 2	201	(15)	186
Stage 3	1	-	1
Total	686	(15)	671

The restructure of loans with loss allowance based on lifetime ECL did not result in a material modification gain or loss.

There were no financial assets whose loss allowance has changed in the period from lifetime to 12-month ECL basis after modification.

iii) Fair Value Measurement

The Group measures FVOCI investment securities at fair value at each reporting date. Fair value of financial instruments 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs. Gains or losses on valuation of financial assets at FVOCI are recognised in other comprehensive income.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The table below shows the various asset classes.

<table>
<tr><th colspan="2">Category (as Defined by IFRS 9)</th><th colspan="2">Class (as Determined by the Group)</th><th>Subclasses</th></tr>
<tr><td rowspan="15">Financial assets</td><td rowspan="2">Financial assets at fair value through other comprehensive income</td><td rowspan="2">Financial assets at fair value through other comprehensive income (FVOCI)</td><td>Debt securities</td><td rowspan="3"></td></tr>
<tr><td>Equity securities</td></tr>
<tr><td rowspan="9">Measured at Amortised Cost</td><td colspan="2">Loans and advances to banks</td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="3">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Personal Loans</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Investment securities - debt instruments</td><td rowspan="2">Debt securities</td><td>Others</td></tr>
<tr><td>Listed</td></tr>
<tr><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td><td rowspan="3"></td></tr>
<tr><td>Mid - corporate</td></tr>
<tr><td>SMEs</td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

Impairment of Financial Assets

The Group's impairment approach, is based on expected credit losses and the Group uses the general approach in determining the impairment of financial assets. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognised; instead, a loss allowance is always recognized for expected credit losses and is re-measured at each reporting date for changes in those expected credit losses.

Determining whether an expected credit loss should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk ("SICR") of the financial asset since initial recognition.

The Group recognises loss allowances for Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Loan and advances to customers
- Financial guarantee contracts issued
- Loan and advances to Banks
- Loan commitments issued.

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

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with i) changes in market conditions, ii) expected cash flows and iii) the passage of time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

i) Offsetting Financial Instruments

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

j) Cash and Cash Equivalents

Cash and cash equivalents includes 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 excludes the cash reserve requirement held with the Central Bank of Kenya.

k) Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis to write down the costs of the property, plant and equipment to their residual value over their estimated useful lives as follows:

Leasehold improvements	12.5 years
Motor vehicles	4 years
Office equipment	8 years
Computers and electronic equipment	3.33 years
Furniture and fittings	8 years

l) Intangible Assets

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

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

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.

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

m) Impairment of Non-Financial Assets

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

n) Provisions for Liabilities

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

o) Income Tax

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

i) Current Income Tax

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

ii) Deferred Income Tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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 recognised only to the extent that it is probable that future taxable profit will be available against which the 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.

p) Employee Benefits

i) Post-Employment Benefits

The Group operates a defined contribution post-employment benefit scheme for all its employees. The scheme is administered by an insurance company and is funded by contributions from both the Bank and employees. The Bank and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

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 Bank's contributions to both these defined contribution schemes are charged to profit or loss in the year to which they fall due. The Bank has no further obligation once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Other Entitlements

The estimated monetary liability for employees' including annual leave entitlement at the balance sheet date is recognised as an expense accrual.

q) Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

r) Fees and Commission Income

Fees and commission income is generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

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

s) Dividend Income

Dividends are recognised in the profit or loss account when the Bank's right to receive payment is established.

t) Dividends Payable

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

u) Share Capital

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

v) Regulatory Reserve

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

w) Financial Guarantee Contracts and Loan Commitments

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

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

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

x) Accounting for Leases

Leases Under Which the Group 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 Group recognises a right-of-use asset and a lease liability.

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 group 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 group's incremental borrowing rate is used. For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

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.

All right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liabilities. 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 the ownership of the underlying asset is expected to pass to the group at the end of the lease term, the estimated useful life would not exceed the lease term.

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

Leases Under Which the Group 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 or loss account on a straight-line basis over the lease term.

3. Financial Risk Management

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 for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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

Risk management is carried out by different departments under policies approved by the Board of Directors. Departmental heads identify and evaluate risks in close cooperation with the operating units. The Board provides guidance on overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities.

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 in light with the changing market and economic conditions.

3.1.1 Risk Limit Control and Mitigation Policies

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, and industry sector are approved annually by the Board of Directors. The Board of Directors also approves individual borrower limits above specified amounts. The exposure to any one borrower including groups is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Actual exposures against limits are monitored daily. Exposure to credit risk is also 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.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

3.1.2 Credit Risk Measurement

Loans and Advances (Including Loan Commitments and Guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD).

Credit Risk Grading

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

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

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Debt Securities and Placements with Banks

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

3.1.3 Expected Credit Loss Measurement

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 on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- 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 Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in Credit Quality Since Initial Recognition

Stage 1	Stage 2	Stage 3
(Initial Recognition)	(Significant Increase in credit risk since initial recognition)	(Credit Impaired assets)
12- Month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the Standard are as follows:

a) Significant Increase in Credit Risk (SICR)

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

Quantitative Criteria

The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has adopted the default standard definition of 30 days past due to determine the significant increase in credit risk.

Qualitative Criteria

The Bank considers a significant increase in credit risk in their portfolio if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to
- Increase risk of default

Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information and is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

b) Definition of Default and Credit-Impaired Assets

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

Qualitative Criteria

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

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

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

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

c) Measuring Expected Credit loss - Explanation of Inputs, Assumptions and Estimation Techniques

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

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

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

ECL is formula driven, i.e. ECL= PD x LGD x EAD

d) Forward-Looking Information Incorporated in the ECL Models

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

The Bank has incorporated forward-looking information in its measurement of ECLs. The Group has formulated a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Sensitivity Analysis

There are no significant changes to the ECL at 31 December 2022 that would result from reasonably possible changes in the Bank's macroeconomic overlays and the probability weightings from actual assumptions used in the Bank's economic variable assumptions.

3.1.4 Credit Risk Exposure

The below 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 statement of financial position.

3. Financial Risk Management (Continued)
3.1 Credit Risk (Continued)
3.1.4 Credit Risk Exposure (Continued)

Maximum Exposure to Credit Risk Before Collateral Held	2023 Shs '000	2022 Shs '000
Group		
Balances with Central Bank of Kenya (Note 13)	1,058,328	923,834
Deposits and balances due from banking institutions (Note 16)	522,017	538,053
Financial assets at amortised cost (Note 15)	4,601,698	4,608,699
Financial assets at FVOCI (Note 14)	248,138	327,039
Other assets (Note 18)	628,782	511,363
Loans and advances to customers (Note 17)	18,961,401	17,451,135
	26,020,364	24,360,123
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	768,656	496,864
- Guarantee and performance bonds	4,009,920	5,399,295
- Commitments to lend	310,027	461,427
- Unutilised guarantees	1,903,092	1,740,047
- Forwards, swaps & options	1,095,248	1,385,703
	34,467,556	34,225,006
Bank		
Balances with Central Bank of Kenya (Note 13)	1,058,328	923,324
Deposits and balances due from banking institutions (Note 16)	522,017	538,053
Financial assets at amortised cost (Note 15)	4,601,698	4,608,699
Financial assets at FVOCI (Note 14)	248,138	327,039
Other assets (Note 18)	576,961	459,780
Loans and advances to customers (Note 17)	18,961,401	17,451,135
	25,968,543	24,308,030
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	768,656	496,864
- Guarantee and performance bonds	4,009,920	5,399,295
- Commitments to lend	310,027	461,427
- Unutilised Guarantees	1,903,092	1,740,047
- Forwards,Swaps & Options	1,095,248	1,385,703
	34,366,761	34,135,727

As shown above 55% of the total maximum exposure is derived from loans and advances to customers (2022: 51%); 14% (2022:14%) represents investments at Amortised Cost and Fair Value through OCI financial assets.

Loans and advances to customers and off-balance sheet items are secured by collateral in the form of charges over land and buildings and/or plant and machineries. No collateral is held for 'other assets'.

3.1.5 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 the following categories:

CBK PG/04 Guidelines	Days Past Due	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

Analysis of Loans and Advances Group and Bank	2023 Shs '000	2022 Shs '000
Neither past due nor impaired (Stage 1)	7,870,471	10,045,821
Past due but not impaired (Stage 2)	3,506,981	3,585,750
Impaired (Stage 3)	8,877,940	4,762,374
Gross	20,255,392	18,393,945
Stage 1 and 2	(123,954)	(81,025)
Stage 3	(1,170,037)	(861,785)
Net	18,961,401	17,451,135

Breakdown of Portfolio Group and Bank	Secured Shs'000	Unsecured Shs '000	Total Shs '000
31 December 2023			
Loans	12,572,551	1,145,350	13,717,901
Overdrafts	6,300,360	237,131	6,537,491
Total	18,872,911	1,382,481	20,255,392
31 December 2022			
Loans	12,284,585	877,856	13,162,441
Overdrafts	3,638,292	1,593,212	5,231,504
	15,922,877	2,471,068	18,393,945

3. Financial Risk Management (Continued)
3.1 Credit Risk (Continued)
3.1.5 Financial Assets that are Past Due or Impaired (Continued)

i) Loans Advances Neither Past Due by up to 30 Days (Stage 1)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the classification adopted by the Bank in conformity with the prudential guidelines of Central Bank of Kenya:

	Individual (Retail Customers)			Corporate Entities			
Stage 1 Group and Bank	**Overdrafts Shs '000**	**Term Loans Shs '000**	**Mortgage Shs '000**	**Large Corporate Customers Shs '000**	**SMEs Shs '000**	**Other Shs '000**	**Total Loans & Advances to Customers Shs '000**
31 December 2023	1,076,176	1,729,005	904	1,977,297	3,087,089	-	7,870,471
Stage 1							
31 December 2022							
Stage 1	1,564,983	1,104,983	729,084	2,561,913	4,084,858	-	10,045,821

ii) Loans and Advances Past Due by up to 90 Days (Stage 2)

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual (Retail Customers)		
Stage 2 Group and Bank	**Overdrafts Shs '000**	**Term Loans Shs '000**	**Total Shs '000**
31 December 2023			
Past due up to 30 days	38,832	-	38,832
Past due 30 - 90 days	1,236	25,798	27,034
Past due 60 - 90 days	229,094	212,322	441,416
Total	269,162	238,120	507,282

	Corporate Entities		
Stage 2 Group and Bank	Large Corporate Customers Shs '000	SMEs Shs '000	Total Shs '000
31 December 2023			
Past due up to 30 days	1,753,350	319,021	2,072,371
Past due 30 - 90 days	-	9,689	9,689
Past due 60 - 90 days	72,909	844,730	917,638
Total	1,826,259	1,173,439	2,999,698

	Individual (Retail Customers)		
Stage 2 Group and Bank	Overdrafts Shs '000	Term Loans Shs '000	Total Shs '000
31 December 2022			
Past due up to 30 days	1,723,191	536	1,723,727
Past due 30 - 90 days	29,689	3,455	33,144
Past due 60 - 90 days	32,036	104,286	136,322
Total	1,784,916	108,277	1,893,193

	Corporate Entities		
Stage 2 Group and Bank	Large Corporate Customers Shs'000	SMEs Shs '000	Total Shs '000
31 December 2022			
Past due up to 30 days	361,358	23,496	384,854
Past due 30 - 90 days	-	89,913	89,913
Past due 60 - 90 days	754,273	463,517	1,217,790
Total	1,115,631	576,926	1,692,557

iii) Loans and Advances Individually Impaired (Stage 3) - Group and Bank

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

	Individuals			Corporate Entities		
Stage 3 Group and Bank	**Overdrafts Shs '000**	**Term Loans Shs '000**	**Mortgage Shs '000**	**Large Corporate Customers Shs '000**	**SMEs Shs '000**	**Total Loans & Advances to Customers Shs '000**
31 December 2023	5,192,150	264,498	24,005	2,127,067	1,270,220	8,877,940
Stage 3						
31 December 2022						
Stage 3	1,881,605	302,046	23,930	1,130,579	1,424,214	4,762,374

Collateral Held Against Stage 3 Loans	**SME Shs '000**	**Corporate Shs '000**	**Personal Shs '000**	**Total Collateral Held Shs '000**
31 December 2023				
Loans	7,451,430	10,026,255	3,224,986	20,702,671
Overdrafts	7,371,499	3,240,367	232,281	10,844,147
Total	14,822,929	13,266,622	3,457,267	31,546,818

3.2 Concentration of Risk

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

Risk Concentration on Loan Portfolios	Loans and Advances %	Credit Commitments %
At 31 December 2022		
Financial institutions	2.3%	89.7%
Manufacturing	0.1%	0.1%
Real estate	11.8%	0.2%
Wholesale and retail trade	32.1%	2.2%
Building and construction	21.3%	3.3%
Other industries	20.6%	4.5%
Individuals	11.7%	0.0%
	100%	100%
At 31 December 2021		
Financial institutions	1.2%	22%
Manufacturing	0.1%	0.1%
Real estate	13.2%	0.4%
Wholesale and retail trade	27.2%	11.5%
Building and construction	23.1%	55.6%
Other industries	21.6%	10.4%
Individuals	13.6%	0%
	100%	100%

3.3 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

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. Market risk measurement and monitoring technique adopted by the bank includes use of various stress tests in its day to day operations.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include interest rates stress test, liquidity stress test and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management and the Assets and liabilities committee and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

i) Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

At December 31 2023, if the shilling had weakened/strengthened by 10% against the foreign currencies in which the Bank had exposures, with all other variables held constant, pre-tax profit would have been lower by Kshs 27.6 milliom/ Kes 19.3 million higher(2022: Kshs (46.8 million/Kes 38.3 million).

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2023. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in thousands of Kenya Shillings).

Collateral Held Against Stage 3 Loans	USD	GBP	Euro	Other	Total
At 31 December 2022					
Assets					
Cash and balances with Central Bank of Kenya	225,645	5,769	42,835	1,173	275,422
Deposits and balances due from banking institutions	198,553	218,734	102,562	2,168	522,017
Loans and advances to customers	5,117,258	-	-	-	5,117,258
Other assets	44,212	-	-	-	44,212
Total assets	5,585,668	224,503	145,397	3,341	5,958,909
Liabilities					
Customer deposits	3,501,101	231,548	145,761	654	3,879,064
Deposits and balances due to banking institutions	140,124	-	-	-	140,124
Long term borrowings	648,126	-	-	-	648,126
Other liabilities	470	-	-	-	470
Total liabilities	4,289,821	231,548	145,761	654	4,667,784
Net on-balance sheet position	1,295,846	(7,045)	(363)	2,688	1,291,126
Net off-balance sheet position	(1,092,963)	(1,999)	(1,738)	1,452	(1,095,248)
Overall net position	202,883	(9,044)	(2,101)	4,140	195,878
As at 31 December 2021					
Total assets	5,101,685	36,288	95,307	1,710	5,234,990
Total liabilities	3,957,444	173,648	78,440	528	4,210,060
Net on-balance sheet position	1,144,242	(137,360)	16,868	1,182	1,024,932
Net off-balance sheet position	(1,752,012)	133,623	(38,291)	(21,272)	(1,677,952)
Overall net position	(607,770)	(3,737)	(21,423)	(20,090)	(653,020)

iii) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest bearing financial assets and liabilities are loans and advances to customers and customer deposits, which are at variable rate, and on which it is therefore exposed to cash flow interest rate risk. The Bank regularly monitors financing options available to ensure optimum interest rates are obtained.

The table below summarises the exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya shillings.

3. Financial Risk Management (Continued)
3.3 Market Risk (Continued)
iii) Interest Rate Risk (Continued)

Interest Rate Risk Group	Up to 1 Months Shs '000	1-3 Months Shs '000	4-12 Months Shs '000	Over 1 Year Shs '000	Non-Interest Bearing Shs '000	Total Shs '000
As at 31 December 2023						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,369,603	1,369,603
Financial assets at amortised cost	-	-	-	4,601,698	-	4,601,698
Deposits and balances due from banking institutions	522,017	-	-	-	-	522,017
Financial assets at FVOCI	-	-	-	248,138	-	248,138
Other assets and prepaid expenses	-	-	-	-	699,797	699,797
Loans and advances to customers	18,961,401	-	-	-	-	18,961,401
Property and equipment and intangible assets	-	-	-	-	271,144	271,144
Deferred income tax	-	-	-	-	190,329	190,329
Right-of-use asset	-	-	-	-	268,652	268,652
Current income tax	-	-	-	-	141,428	141,428
Total assets	19,483,418	-	-	4,849,836	2,940,953	27,274,207
Liabilities and Shareholders' Funds						
Customer deposits	3,481,352	5,458,648	2,731,270	2,324,862	4,318,741	18,314,873
Deposits and balances due to banking institutions	3,344,642	-	207,467	-	-	3,552,109
Other liabilities	-	-	-	-	470,316	470,316
Lease liability	-	-	-	-	215,248	215,248
Long term borrowings	-	-	-	695,024		695,024
Shareholders' equity	-			-	4,026,637	4,026,637
Total liabilities and shareholders' equity	6,825,994	5,458,648	2,938,737	3,019,886	9,030,942	27,274,207
Interest sensitivity gap	12,657,424	(5,458,648)	(2,938,737)	1,829,950	(6,089,989)	-
As at 31 December 2022						
Total assets	5,415,461	2,463,251	3,544,518	11,501,695	2,888,291	25,813,218
Total liabilities and shareholders' funds	4,631,617	8,118,722	1,501,270	2,724,288	8,837,321	25,813,218
Interest sensitivity gap	783,844	(5,655,471)	2,043,248	8,777,407	(5,949,030)	-

Interest Rate Risk Bank	Up to 1 Months Shs '000	1-3 Months Shs '000	4-12 Months Shs '000	Over 1 Year Shs '000	Non-Interest Bearing Shs '000	Total Shs '000
As at 31 December 2023						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,369,603	1,369,603
Financial assets at amortised cost	-	-	-	4,601,698	-	4,601,698
Deposits and balances due from banking institutions	522,017	-	-	-	-	522,017
Financial assets at FVOCI	248,138	-	-	-	-	248,138
Other assets and prepaid expenses	-	-	-	-	647,976	647,976
Loans and advances to customers	18,961,401	-	-	-	-	18,961,401
Property and equipment and intangible assets	-	-	-	-	271,118	271,118
Right-of-use asset	-	-	-	-	190,329	190,329
Deferred income tax	-	-	-	-	267,542	267,542
Current income tax	-	-	-	-	133,951	133,951
Investment in subsidiary					5,000	5,000
Total assets	19,731,556	-	-	4,601,698	2,885,519	27,218,773
Liabilities and Shareholders' Funds						
Customer deposits	3,530,326	5,458,648	2,731,270	2,324,862	4,318,741	18,363,847
Deposits and balances due to banking institutions	3,344,642	-	207,467	-	-	3,552,109
Other liabilities	-	-	-	-	414,546	414,546
Lease liability	-	-	-	-	215,248	215,248
Long term borrowings	-	-	-	695,024	-	695,024
Shareholders' equity	-	-	-	-	3,977,999	3,977,999
Total liabilities	6,874,968	5,458,648	2,938,737	3,019,886	8,926,534	27,218,773
Interest sensitivity gap	12,856,588	(5,458,648)	(2,938,737)	1,581,812	(6,041,015)	-
As at 31 December 2022						
Total assets	5,415,461	2,463,251	3,544,518	11,501,695	2,888,291	25,813,218
Total liabilities	4,631,617	8,118,722	1,501,270	2,724,288	8,837,321	25,813,218
Interest sensitivity gap	783,844	(5,655,471)	2,043,248	8,777,407	(5,949,030)	-

3.4 Liquidity Risk

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

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. All figures are in Thousands of Kenya Shillings.

Payable Undiscounted Cash Flows	Up to 1 Months Shs '000	1-3 Months Shs '000	4-12 Months Shs '000	Over 1 Year Shs '000	Non-Interest Bearing Shs '000	Total Shs '000
Group						
Liabilities						
As at 31 December 2023						
Customer deposits	6,904,751	5,458,648	2,778,168	3,102,068	83,555	18,327,190
Deposits and balances due from banking institutions	3,344,642	-	222,029	-	-	3,566,671
Other liabilities	374,709	17,458	33,712	44,437	-	470,316
Borrowings	-	-	-	768,382	60,142	828,524
Lease liability	-	-	-	156,942	182,363	339,305
Total liabilities	10,624,102	5,476,106	3,033,909	4,155,384	242,505	23,532,006
As at 31 December 2022						
Customer deposits	7,115,053	9,417,718	917,366	2,119,952	772,682	20,342,771
Deposits and balances due from banking institutions	3,071,707	-	824,107	-	-	3,895,814
Other liabilities	378,705	9,966	-	53,788	-	442,459
Borrowings	-	-	-	983,120	57,102	1,040,222
Lease liability	-	-	-	-	384,347	384,347
Total liabilities	10,565,465	9,427,683	1,741,473	3,156,860	1,214,131	26,105,613
Bank						
Liabilities						
As at 31 December 2023						
Customer deposits	7,055,114	5,458,648	2,778,168	3,102,068	83,555	18,477,553
Deposits and balances due from banking institutions	3,344,642	222,029				3,566,671
Other liabilities	336,870	17,458	15,781	44,437	-	414,546
Long term borrowings	-	-	-	768,382	60,142	828,524
Lease liability	-	-	-	156,942	182,363	339,305
Total liabilities	10,736,626	5,476,106	3,015,978	4,071,829	326,060	23,626,599
As at 31 December 2022						
Customer deposits	7,115,053	9,417,718	917,366	2,119,952	772,682	20,342,771
Deposits and balances due from banking institutions	3,071,707	-	824,107	-	-	3,895,814
Other liabilities	275,905	8,591	-	46,368	-	330,864
Borrowings	-	-	-	983,120	57,102	1,040,222
Lease liability	-	-	-	-	384,347	384,347
Total liabilities	10,462,665	9,426,309	1,741,473	3,149,440	1,214,131	25,994,018

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to manage liquidity risk and support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of cash and balances with Central Bank of Kenya, certificates of deposit, government securities and other securities that are readily acceptable in repurchase agreements with the Central Bank of Kenya.

3.5 Fair Value Hierarchy

Assets Measured at Fair Value Group and Bank	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Balance Shs '000
Assets				
At 31 December 2023				
Fair value through OCI				
- Debt investments	-	248,138	-	248,138
At 31 December 2022				
Fair value through OCI				
- Debt investments	-	327,039	-	327,039

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Bank, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily foreign corporate bonds and Nairobi Securities Exchange ("NSE") equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The following summarises the carrying amount of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised cost is considered to approximate the fair value of the assets and liabilities.

Fair Value	2023 Historical Cost Shs '000	Fair Value Shs '000	2022 Historical Cost Shs '000	Fair Value Shs '000
Group				
Assets				
Cash and balances with Central Bank of Kenya	1,418,577	1,418,577	1,305,381	1,305,381
Financial assets at FVOCI	248,138	248,138	327,039	327,039
Financial assets at amortised cost	4,601,698	4,564,450	4,608,699	4,575,980
Deposits and balances due from banking institutions	522,017	522,017	538,053	538,053
Loans and advances to customers	18,961,401	18,961,401	17,451,135	17,451,135
Other assets and prepaid expenses	699,294	699,294	568,444	568,444
Right of Use Assets	190,329	190,329	278,099	278,099
Liabilities				
Deposits and balances due to banking institutions	3,552,109	3,552,109	3,552,109	3,358,544
Customer deposits	18,363,847	18,363,847	18,363,847	17,536,871
Other liabilities	470,316	470,316	470,316	381,430
Borrowings	695,024	695,024	695,024	896,743
Lease liabilities	215,248	215,248	215,248	331,334
Bank				
Assets				
Cash and balances with Central Bank of Kenya	1,369,603	1,369,603	1,267,685	1,267,685
Financial assets at FVOCI	248,138	248,138	327,039	327,039
Financial assets at amortised cost	4,601,698	4,564,450	4,608,699	4,575,980
Deposits and balances due from banking institutions	522,017	522,017	538,053	538,053
Loans and advances to customers	18,961,401	18,961,401	17,451,135	17,451,135
Other assets and prepaid expenses	647,473	647,473	516,859	516,859
Right of Use Assets	190,329	190,329	278,099	278,099
Liabilities				
Deposits and balances due to banking institutions	3,552,109	3,552,109	3,358,544	3,358,544
Customer deposits	18,363,847	18,363,847	17,536,871	17,536,871
Other liabilities	414,546	414,546	330,864	330,864
Borrowings	695,024	695,024	896,743	896,7434
Lease liabilities	215,248	215,248	331,334	331,334

3.6 Capital Management

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

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

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

The Central Bank of Kenya requires each bank to:

(a) hold the minimum level of regulatory capital of Shs 1 billion;
(b) maintain a ratio of core regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5% (2021: 10.5%);
(c) maintain core capital of not less than 8% of total deposit liabilities; and
(d) maintain total capital of not less than 14.5% (2021: 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, share premium, plus retained earnings.
- 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.

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

Composition of Regulatory Capital	2023 Shs '000	2022 Shs '000
Tier 1 capital	2,512,620	1,655,957
Tier 1 + Tier 2 capital	3,473,466	3,343,515
Risk-weighted assets		
On-balance sheet	19,700,163	20,532,124
Off-balance sheet	1,566,806	1,906,046
Total risk-weighted assets	21,266,969	22,438,170
Basel ratio		
Core capital to total risk weighted assets (CBK minimum – 10.5% (2022: 10.5%)	11.81%	7.38%
Total capital to total risk weighted assets (CBK minimum – 14.5% (2022: 14.5%)	16.33%	14.90%

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 continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment Losses on Loans and Advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5. Interest Income

Group and Bank	2023 Shs '000	2022 Shs '000
Loans and advances	2,475,005	1,825,243
Credit related fees and commissions	85,349	191,411
Financial assets at amortised cost	545,017	502,538
Financial assets at FVOCI	40,260	99,459
Deposits and balances due from banking institutions	3,858	9,797
	3,149,489	2,628,448

6. Interest Expense

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Customer deposits	1,277,460	1,307,367	1,282,842	1,311,590
Deposits and balances due to banking institutions	513,216	130,653	513,216	130,653
Lease liability	35,829	47,049	35,829	47,049
	1,826,505	1,485,069	1,831,887	1,489,292

7. a) Other Income

	2023 Shs '000	2022 Shs '000
Group and Bank		
Gain on sale of financial assets held at FVOCI	7,526	20,459
Other income	41,477	88,054
Loss on disposal of property and equipment	-	274
	49,003	108,787

7. b) Trading Income

	2023 Shs '000	2022 Shs '000
Group and Bank		
Foreign exchange income	315,488	147,108

7. c) Fees and Commission Income

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Service fees and commissions - transactional	55,200	129,296	55,200	129,296
Other fees	129,108	152,321	129,109	152,321
Bancasurance commissions earned	19,383	18,324	-	-
	203,691	299,941	184,309	281,617

8. Credit Impairment Losses

	2023 Shs '000	2022 Shs '000
Group and Bank		
Increase in stage 1 ECL	9,487	15,896
Increase in stage 2 ECL	29,136	34,164
Increase in stage 3 ECL	312,558	242,384
Impairment charge on loans to customers (Note 17)	351,181	292,444

The ECL movements in other financial instruments were assessed and determined to be immaterial in the year and therefore have not been recognised (2022: Nil)

9. Employee Benefits

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Salaries and allowances	563,559	562,005	555,554	554,039
Medical insurance	62,420	57,761	61,749	56,968
Training and development	1,335	2,598	1,335	2,598
Travelling and accommodation	794	1,047	794	1,047
Retirement benefits costs	24,021	24,503	23,649	24,132
- Defined contribution scheme	2,552	520	2,507	510
- National Social Security Fund	65,889	65,056	65,611	64,847
Other costs	720,570	713,490	711,199	704,141

The number of persons employed by the Group as at 31 December 2023 was 214 (2022: 216). The number of persons employed by bank as at 31 December 2023 was 210 (2022:212).

10. Other Operating Expenses

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
The following items are included with other operating expenses:				
Software licensing and other information technology costs	148,370	139,182	148,219	139,031
Auditors' remuneration	15,952	10,960	15,413	10,492
Rental expenses	14,526	16,150	14,526	16,150
Security guards alarms	45,710	42,382	45,710	42,382
Visa expenses	44,156	34,399	44,156	34,399
Deposit protection fund	30,054	32,472	30,054	32,472
Data communication costs	28,706	27,466	28,706	27,466
Membership subscription	15,600	10,671	15,550	10,671
Other costs	171,454	161,840	167,809	160,794
	514,528	475,522	510,143	473,857

11. Income Tax Expense

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Current income tax	22,884	33,429	18,529	29,950
Deferred income tax (Note 19)	(11,090)	(42,401)	(10,050)	(42,423)
Underprovision of deferred tax in the prior years (Note 19)	-	(44,168)	-	(44,168)
(Over)/Under provision of current tax in the prior years	14,716	783	14,663	794
Tax expense for the period	26,510	(52,357)	23,142	(55,847)
The tax on the Group and Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:				
(Loss)/Profit before income tax	58,910	(54,040)	47,914	(65,552)
Tax calculated at a tax rate of 30% (2022: 30%)	17,763	(16,212)	14,374	(19,666)
Tax effect of:				
- income not subject to tax	(71,265)	(61,187)	(71,265)	(61,187)
- expenses not deductible for tax purposes	66,296	68,427	65,370	68,380
- under/(over)/ provision of deferred tax in prior years	-	(44,168)	-	(44,168)
- (over)/ under provision of current tax in prior years	14,716	783	14,663	794
Income tax expense	26,510	(52,357)	23,142	(55,847)

12. Proposed Dividends

Proposed dividends are provided for when declared and ratified at the annual general meeting.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence status of the respective shareholders.

The directors do not recommend payment of a cash dividend (2022: Nil).

13. Cash and Balances with Central Bank of Kenya

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Cash in hand	311,275	381,547	311,275	343,851
Balances with Central Bank of Kenya	1,058,328	923,834	1,058,328	923,834
	1,369,603	1,305,381	1,369,603	1,267,685

The ECL for cash and bank balances was assessed and deemed immaterial to the financial statements and has not been recognised. (2022: Nil)

14. Financial Assets Held at FVOCI

Group and Bank	2023 Shs '000	2022 Shs '000
Infrastructure bond	75,000	121,650
Treasury bonds	173,138	205,389
	248,138	327,039

The securities are traded on the Nairobi Securities Exchange. The ECL was not material to the financial statements and has not been booked. (2022: Not material)

15. Financial Assets at Amortised Cost

Group and Bank	2023 Shs '000	2022 Shs '000
Maturing after 90 days of the date of acquisition	4,601,698	4,608,699
	4,601,698	4,608,699

The ECL on financial assets at amortised cost was assessed and deemed immaterial to the financial statements and has not been recognised. (2022: Nil)

16. Deposits and Balances From Banking Institutions

Group and Bank	2023 Shs '000	2022 Shs '000
Overnight lending	-	312,879
Balances with banks abroad	522,017	225,174
	522,017	538,053

The ECL on deposits was assessed and deemed immaterial to the financial statements and has not been recognised. (2022: Nil)

17. Loans and Advances to Customers

	2023 Shs '000	2022 Shs '000
Retail customers		
Mortgage lending	903,538	753,014
Personal unsecured	153,870	130,973
Personal secured Loans	1,133,381	1,384,334
Corporate customers		
Commercial term loans	11,637,568	10,894,121
Overdraft facilities	6,427,035	5,231,503
Gross loans and advances	20,255,392	18,393,945
Less: Provision for ECL on loans and advances		
- Stage 1	(72,173)	(39,690)
- Stage 2	(51,781)	(45,611)
- Stage 3	(1,170,037)	(857,509)
	(1,293,991)	(942,810)
Net loans and advances	18,961,401	17,451,135

17. i) Gross Carrying Amount of Loans and Advances

	Stage 1 12-Month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
Year ended 31 December 2023				
At start of year	10,045,821	3,585,751	4,762,373	18,393,945
Transfer from stage 1 to stage 2	(1,847,031)	1,847,031	-	-
Transfer from stage 1 to stage 3	(278,522)	-	278,522	-
Transfer from stage 2 to stage 1	378,808	(378,808)	-	-
Transfer from stage 2 to stage 3	-	(2,476,215)	2,476,215	-
Transfer from stage 3 to stage 1	26,191	-	(26,191)	-
Transfer from stage 3 to stage 2	-	313,690	(313,690)	-
Financial assets derecognised	(1,534,311)	(58,384)	(129,604)	(1,722,299)
New financial assets originated	1,079,515	673,916	1,830,315	3,583,746
At end of year	7,870,471	3,506,981	8,877,940	20,255,392
Year ended 31 December 2022				
At start of year	10,011,382	1,705,845	4,337,776	16,055,003
Transfer from stage 1 to stage 2	(1,221,572)	1,221,572		-
Transfer from stage 1 to stage 3	(91,348)		91,348	-
Transfer from stage 2 to stage 1	514,178	(514,178)		-
Transfer from stage 2 to stage 3		(589,130)	589,130	-
Transfer from stage 3 to stage 1	10,682	-	(10,682)	
Transfer from stage 3 to stage 2		142,024	(142,024)	-
New financial assets originated	(623,846)	(72,393)	(196,011)	(892,250)
Financial assets derecognised	1,446,345	1,692,011	92,836	3,231,192
At end of year	10,045,821	3,585,751	4,762,373	18,393,945

17. ii) Provisions for Expected Credit Loss on Loans and Advances

	Stage 1 12-Month ECL Shs '000	Stage 2 Lifetime ECL Shs '000	Stage 3 Lifetime ECL Shs '000	Total Shs '000
Year ended 31 December 2023				
At start of the year	39,690	45,611	857,509	942,810
Movements during the year				
Transfer to 12 month ECL	23,950	(23,950)	-	-
Transfer to lifetime ECL not credit impaired	(954)	984	(30)	-
Transfer to life time ECL credit impaired	-	-	-	-
Financial assets originated or purchased	9,487	29,136	312,558	351,181
	32,483	6,170	312,528	351,181
At end of year	72,173	51,781	1,170,037	1,293,991
Year ended 31 December 2022				
At start of the year	21,577	10,464	618,325	650,366
Movements during the year				
Transfer to 12 month ECL	4,048	(478)	(3,570)	-
Transfer to lifetime ECL not credit impaired	(3,761)	13,233	(9,472)	-
Transfer to life time ECL credit impaired	(190)	-	190	-
Financial assets originated or purchased	18,016	22,392	252,036	292,444
	18,113	35,147	239,184	292,444
At end of year	39,690	45,611	857,509	942,810

18. Other Assets and Prepaid Expenses

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Items in transit	221,830	237,804	221,830	237,804
Prepaid expenses	71,015	57,080	71,015	57,080
Stationery stocks	4,903	4,904	4,903	4,904
Others	402,049	268,655	350,228	217,070
	699,797	568,443	647,976	516,858

19. Deferred Income Tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using the enacted income tax rate of 30% (2022: 30%). The movement on the deferred income tax account is as follows:

Deferred Income Tax Group	2023 Shs '000	2022 Shs '000
At start of year	250,155	161,979
Charge to profit or loss	11,090	42,401
Charge to other comprehensive income	7,407	1,607
Under provision of income tax in the prior years	-	44,168
At end of year	268,652	250,155

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

Attribution of Net Deferred Income Tax Group	At Start of Year Shs '000	Credit/(Charge) to P&L Shs '000	Charge to OCI Shs '000	At End of Year Shs '000
Year ended 31 December 2023				
Property and equipment	19,451	(3,748)	-	15,703
General provisions	220,129	24,094	-	244,223
Right of use asset and lease liability	8,968	(1,492)	-	7,476
Unrealised exchange gains - trading	-	(7,764)	-	(7,764)
Temporary differences through OCI	1,607	-	7,407	9,014
Net deferred income tax asset	250,155	11,090	7,407	268,652

Attribution of Net Deferred Income Tax Group	At Start of Year Shs '000	Credit/ (Charge) to P&L Shs '000	Charge to OCI Shs '000	Prior Year Under Provision Shs '000	At End of Year Shs '000
Year ended 31 December 2022					
Property and equipment	17,176	2,275	-	-	19,451
General provisions	173,814	46,315	-	-	220,129
Right of use asset and lease liability	(29,011)	(6,189)	-	44,168	8,968
Temporary differences through OCI	-	-	1,607	-	1,607
Net deferred income tax asset	161,979	42,401	1,607	44,168	250,155

Deferred Income Tax Bank	2023 Shs '000	2022 Shs '000
At start of year	250,085	161,887
Charge to profit or loss	10,050	42,423
Charge to other comprehensive income	7,407	1,607
Under provision of income tax in the prior years	-	44,168
At end of year	267,542	250,085

The net deferred income tax asset in the statement of financial position and deferred income tax expense in the profit or loss are attributable to the following items:

Attribution of Net Deferred Income Tax Bank	At Start of Year Shs '000	Credit/(Charge) to P&L Shs '000	Charge to OCI Shs '000	At End of Year Shs '000
Year ended 31 December 2023				
Property and equipment	19,396	(3,741)	-	15,655
General provisions	220,110	23,051	-	243,161
Right of use asset and lease liability	8,972	(1,496)	-	7,476
Unrealised exchange gains - trading	-	(7,764)	-	(7,764)
Temporary differences through OCI	1,607	-	7,407	9,014
Net deferred income tax asset	250,085	10,050	7,407	267,542

17. Loans and Advances to Customers (Continued)

Attribution of Net Deferred Income Tax Bank	At Start of Year Shs '000	Credit/ (Charge) to P&L Shs '000	Charge to OCI Shs '000	Prior year Under Provision Shs '000	At End of Year Shs '000
Year ended 31 December 2022					
Property and equipment	17,124	2,272	-	-	19,396
General provisions	173,814	46,296	-	-	220,110
Right of use asset and lease liability	(29,051)	(6,145)	-	44,168	8,972
Temporary differences through OCI	-	-	1,607	-	1,607
Net deferred income tax asset	161,887	42,423	1,607	44,168	250,085

20. Property and Equipment

Group	Leasehold Improvements Shs '000	Motor Vehicles Shs '000	Office Equipment Shs '000	Computer And Electronic Equipment Shs '000	Furniture and Fittings Shs '000	Total Shs '000
At January 2022						
Cost	286,963	30,959	342,624	163,556	48,476	872,578
Accumulated Depreciation	(166,796)	(29,939)	(206,847)	(158,088)	(36,629)	(598,299)
Net Book Value	120,167	1,020	135,777	5,468	11,847	274,279
Year ended 31 December 2022						
Opening net book amount	120,167	1,020	135,777	5,468	11,847	274,279
Additions	147	-	6,936	3,450	1,509	12,042
Depreciation charge	(20,792)	(1,020)	(31,498)	(3,369)	(2,653)	(59,332)
Closing net book amount	99,522	-	111,215	5,549	10,703	226,989
At 31 December 2022						
Cost	287,110	30,959	349,560	167,006	49,985	884,620
Accumulated depreciation	(187,588)	(30,959)	(238,345)	(161,457)	(39,282)	(657,631)
Net book amount	99,522	-	111,215	5,549	10,703	226,989
Year ended 31 December 2023						
Opening net book amount	99,522	-	111,215	5,549	10,703	226,989
Additions	170		8,655	495	108	9,428
Adjustment	(9)	(129)	3,677	-	-	3,539
Depreciation charge	(20,391)	-	(29,065)	(3,109)	(2,543)	(55,108)
Closing net book amount	79,292	(129)	94,482	2,935	8,268	184,848
At 31 December 2023						
Cost	287,271	30,830	361,892	167,501	50,093	897,587
Accumulated depreciation	(207,979)	(30,959)	(267,410)	(164,566)	(41,825)	(712,739)
Net book amount	79,292	(129)	94,482	2,935	8,268	184,848

20. Property and Equipment

Bank	Leasehold Improvements Shs '000	Motor Vehicles Shs '000	Office Equipment Shs '000	Computer And Electronic Equipment Shs '000	Furniture and Fittings Shs '000	Total Shs '000
At January 2022						
Cost	283,512	31,089	337,832	162,287	47,912	862,632
Accumulated Depreciation	(163,343)	(30,069)	(202,055)	(156,853)	(36,090)	(588,410)
Net Book Value	120,169	1,020	135,777	5,434	11,822	274,222
Year ended 31 December 2022						
Opening net book amount	120,169	1,020	135,777	5,434	11,822	274,222
Additions	145		6,936	3,450	1,509	12,040
Depreciation charge	(20,792)	(1,020)	(31,498)	(3,362)	(2,639)	(59,311)
Closing net book amount	99,522	-	111,215	5,522	10,692	226,951
At 31 December 2022						
Cost	283,657	31,089	344,768	165,737	49,421	874,672
Accumulated depreciation	(184,135)	(31,089)	(233,553)	(160,215)	(38,729)	(647,721)
Net book amount	99,522	-	111,215	5,522	10,692	226.951
Year ended 31 December 2023						
Opening net book amount	99,522	-	111,215	5,522	10,692	226,951
Additions	170	-	8,655	495	108	9,428
Adjustment	(9)	(129)	3,677	-	-	3,539
Disposals		-	-	-	-	-
Depreciation charge	(20,391)	-	(29,065)	(3,106)	(2,534)	(55,096)
Closing net book amount	79,292	(129)	94,482	2,911	8,266	184,822
At 31 December 2023						
Cost	283,818	30,960	357,100	166,232	49,529	887,639
Accumulated depreciation	(204,526)	(31,089)	(262,618)	(163,321)	(41,263)	(702,817)
Net book amount	79,292	(129)	94,482	2,911	8,266	184,822

21. Intangible Assets

Group and Bank	Software Licences Shs '000	Work in Progress Shs '000	Total Shs '000
Year ended 31 December 2022			
Opening net book amount	106,034	3,047	109,081
Additions	18,477	19,751	38,228
Amortisation for the year	(47,280)	-	(47,280)
Closing net book amount	77,231	22,798	100,029
Year ended 31 December 2023			
Opening net book amount	77,231	22,798	100,029
Additions		18,775	18,775
Amortisation for the year	(32,508)	-	(32,508)
Closing net book amount	44,723	41,573	86,296

22. Investment in Subsidiary

The Bank has an investment in a wholly owned subsidiary called Credit Bank Insurance Agency Limited. The subsidiary provides bancassurance services.

23. Deposits and Balances Due to Banking Institutions

Group and Bank	2023 Shs '000	2022 Shs '000
Current accounts	84	84
Overnight borrowing	3,552,025	3,358,460
	3,552,109	3,358,544

24. Customer Deposits

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Retail customers:	1,709,090	1,320,245	1,709,090	1,320,245
Current and demand deposits	6,331,852	5,606,510	6,331,852	5,606,510
Fixed deposits	240,786	298,342	240,786	298,342
Savings accounts				
Corporate customers:				
Current and demand deposits	2,465,849	2,829,912	2,465,849	2,829,912
Fixed deposits	7,525,577	7,400,358	7,574,551	7,400,358
Savings Accounts	41,719	81,504	41,719	81,504
	18,314,873	17,536,871	18,363,847	17,536,871

25. Other Liabilities

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Items in transit	9,919	7,364	9,919	7,364
Bills payable	32,528	36,965	32,528	36,965
Unclaimed balances	779	5,673	779	5,673
Other payables	427,090	331,428	371,320	280,862
	470,316	381,430	414,546	330,864

26. Right-of-Use Assets

Group and Bank	2023 Shs '000	2022 Shs '000
At start of year	278,100	321,181
Additions	-	45,121
Disposal	(3,523)	(53)
Depreciation Charge	(84,248)	(88,149)
At end of year	190,329	278,100

27. Lease Liabilities

Group and Bank	2023 Shs '000	2022 Shs '000
At start of the year	331,334	394,897
Additions	6,739	45,121
Interest expense on lease liabilities	35,829	47,049
Principal and interest payments	(158,654)	(155,733)
	215,248	331,334
Lease liablities can be classified as current or non – current liabilities depending on the expected date of settlement/ cash outflow as per the table below :-		
Expected to be settled within 12 months after the year end	136,820	134,328
Expected to be settled more than 12 months after the year end	78,428	197,006
	215,248	331,334

28. Borrowings

Group and Bank	2023 Shs '000	2022 Shs '000
Movement during the year:		
At start of year	896,743	954,012
Proceeds from borrowed funds	-	-
Repayment of borrowed funds	(365,379)	(161,000)
Interest charged on borrowed funds	102,357	46,049
Foreign exchange gain/loss	137,147	85,493
Interest paid on borrowed funds	(75,844)	(27,811)
	695,024	896,743
Current	209,979	185,869
Non-current portion	485,045	710,874
	695,024	896,743

Lender	Type of loan	Loan Balance Shs '000	Currency	Interest Rate	Maturity Date	Finance Cost Recognised in the Year Shs '000
African Development Bank	Long term loan	648,279	USD	SOFR + 4.75%	1 February 2025	99,760
KMRC - AFDB Line	Long term loan	27,145	KES	5%	1/12/2036	1,508
KMRC - World Bank Line	Long term loan	19,599	KES	5%	1/11/2036	1,089

29. Share Capital

Group and Bank	Number of Shares (thousands)	Ordinary Shares Shs '000	Share Premium Shs '000
Year ended 31 December 2022			
At start of the year	29,160	2,915,971	94,639
Share issue costs	-	-	(6,882)
At end of year	29,160	2,915,971	87,757
Year ended 31 December 2023			
At start of year	29,160	2,915,971	87,757
Issue of shares	7,290	728,993	-
Share issue costs	-	-	(27,346)
At end of year	36,450	3,644,964	60,411

As at 31 December 2023, the Banks authorised share capital was 75,000,000 ordinary shares of Shs' 100 each (2022: 75,000,000). During the year 7,289,925 additional shares were issued to ShoreCap III, Ltd. Retained earnings distributed in form of Bonus shares (Nil) (2022: Nil). Shares 36,449,639 are issued and fully paid (2022: 29,159,714).

30. Regulatory Reserve

	2023 Shs '000	2022 Shs '000
At start of year	1,687,559	1,687,559
Transfer to statutory risk reserve	145,044	-
At end of year	1,832,603	1,687,559

The regulatory reserve represents an appropriation from retained earnings to comply with the CBK's Prudential guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with the CBK's Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. This reserve is not distributable.

31. Fair Value Reserve

Group and Bank	2023 Shs '000	2022 Shs '000
At start of year	(76,229)	(31,802)
Revaluation of FVOCI instruments net of tax	(15,706)	(44,427)
At end of year	(91,935)	(76,229)

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

32. Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments (Group and Bank)

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 statement of financial position. At the year end, the contingent items were as follows:

Contingent Liabilities

Group and Bank	2023 Shs '000	2022 Shs '000
Acceptances and letters of credit	768,656	496,864
Guarantees and performance bonds	4,009,920	5,399,295
Forwards,Options & Swaps	1,095,248	1,385,703
	5,873,824	7,281,862
Clients' investments		
Clients' treasury bonds	582,600	438,800
Clients' treasury bills	10,500	200
	593,100	439,000

Nature of Contingent Liabilities (Group and Bank)

The Bank invests in Government of Kenya treasury bills and treasury bonds on behalf of its clients. These investments are held in Bank's clients account with the Central Bank of Kenya separate from the Bank's own investments. These investments are recognised as client investments and as off balance sheet assets in the Bank's books.

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, but 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

(a) Legal Proceedings

There were a few of legal proceedings outstanding against the Bank at 31 December 2022.

Claims and counter claims against the Bank regarding collaterals held by the Bank have been lodged. The Bank considers the cases as without merit and is defending them vigorously.

(b) Capital Commitments

At 31 December 2022, the Bank had capital commitments of Kes 361.3 Mln (2021: 414.2 Mln) in respect of software, buildings and equipment purchases.

c) Other Commitments

Group and Bank	2023 Shs '000	2022 Shs '000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,213,119	2,201,474

Nature of Commitments

Commitments to lend are agreements to advance 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.

33. Assets Pledged as Security

As at 31 December 2022 treasury bonds valued at Shs Nil (2021: Nil) were pledged to secure trade finance lines with various banks.

There was no contingent liabilities outstanding under these facilities at 31 December 2022 (2021: Nil)

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and

34. Analysis of Cash and Cash Equivalents as Shown in the Cash Flow Statement

	Group		Bank	
	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Cash and balances with Central Bank of Kenya (Note 13)	1,418,577	1,305,381	1,369,603	1,267,685
Less: cash reserve requirement (see below)	(706,715)	(685,744)	(706,715)	(685,744)
Deposits and balances due from banking institutions (Note16)	522,017	538,053	522,017	538,053
Treasury bills with less than 91 days maturity (Note15)	-	-	-	-
	1,233,879	1,157,690	1,184,905	1,119,994

amounts due to and from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the Bank's day-to-day activities. The amount is determined as 4.25% (2021: 4.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

35. Related Party Transactions

(i) Transactions With Key Management Personnel

Key management personnel and their immediate relatives have transacted with the Bank during the year as follows:

Transactions With Key Management Personnel

	2023 Shs '000	2022 Shs '000	2023 Shs '000	2022 Shs '000
Mortgage lending and other secured loans	396,914	366,049	361,743	334,802
Other loans	11,341	10,457	9,284	11,174

Interest rate charged to staff is at preferential rate whereas rates to Directors and related parties are at arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the year comprised:

(ii) Key management Compensation

	2023 Shs '000	2022 Shs '000
Salaries and other short-term employment benefits	254,533	238,709

(iii) Directors' Remuneration

	2023 Shs '000	2022 Shs '000
- fees for services as non executive directors	9,923	10,616
- other emoluments (included in key management compensation above)	52,363	49,306
	62,286	59,922

(iv) Loans and Advances to Directors and Their Associates (Group and Bank)

At 31 December 2023 advances to companies where the Bank's directors or their families exert significant influence amounted to Shs. 551,371,186 (2022: Shs. 515,098,000).

At 31 December 2023 advances to employees amounted to Shs. 833,141,840 (2022: Shs. 908,054,000). The movement in advances to related parties is as shown below:

v) Loans and Advances to Staff

Group and Bank	2023 Shs '000	2022 Shs '000
At start of year	908,054	966,597
Issued during the year	240,784	45,873
Repaid during the year	(315,696)	(104,416)
At end of year	833,142	908,054

Interest earned on staff loans during the year amounted to Shs 72,770,671 (2022: Shs 73,786,738.00).

The Bank has entered into loan transactions with its directors and associates as follows:

Loans and Advances to Directors

Group and Bank	2023 Shs '000	2022 Shs '000
At start of year	515,099	592,839
Interest charged	61,778	63,631
Loans disbursed	21,034	-
Repaid during the year	(70,809)	(118,059)
Net movement in overdraft balances	24,168	(23,312)
At end of year	551,270	515,099
Interest income earned on these advances	61,778	63,631

No provisions have been recognised in respect of loans given to related parties (2022: nil).

At 31 December 2023, customer deposits include deposits due to directors or their families and employees of Shs 1,846,483,267 (2022: Shs 2,153,802,993).

(vi) Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 44,112,860 (2022: Shs 43,051,928.70).

Credit Bank
My Friend, My Bank

Proxy Form

To: The Company Secretary
Credit Bank PLC
P O Box 61064 – 00200
Nairobi

Details

I/We:

ID No.: Share Account No.:

Address:

Being a member/members of **Credit Bank PLC** (the Company) hereby appoint:

Name:

ID No.: Proxy's Mobile No.:

Proxy's Email Address:

Or Failing Him/Her:

As my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 24th June 2024, Nairobi and at any adjournment thereof. I / We authorize my/our Proxy to cast the votes as they wish/according to my/our intentions as follows*:

1. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2023 together with the Directors' and Auditors' Reports thereon.

   ☐ Approve ☐ Disapprove ☐ Abstain

2. To re-elect Directors in accordance with the Articles of Association:-

   a. Dr. James Stanley Mathenge, retires from office by rotation and, being eligible, offers himself for re-election.

   ☐ Approve ☐ Disapprove ☐ Abstain

   b. Mr. Jack Mugo Ngare, retires from office by rotation and, being eligible, offers himself for re-election.

   ☐ Approve ☐ Disapprove ☐ Abstain

3. To approve the Directors' remuneration for the financial year 2024.

   ☐ Approve ☐ Disapprove ☐ Abstain

4. To authorise the directors to fix the Auditors' remuneration.

   ☐ Approve ☐ Disapprove ☐ Abstain

Proxy Form

5. To re-appoint the Auditors, PricewaterhouseCoopers, who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

☐ Approve ☐ Disapprove ☐ Abstain

Dated this day of

Signature:

*Unless specifically indicated, the proxy will vote as they wish.

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not to be a member of the Company. A form of proxy may be obtained from the bank's website www.creditbank.co.ke or the banks head office, One Africa Place, Westlands, Nairobi or our Company's Share Registrar, Custody and Registrars Services, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi. To be valid, a form of proxy must be duly completed by the member and must either be lodged with the Registrar of the Company at Custody and Registrars Services, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than 48 hours before the meeting or emailed to proxy@candrgroup.co.ke in pdf format. Duly completed form must be supported by a copy of ID/valid Passport of the member.

2. In the case of a member being a corporation, the proxy must be under a common Seal or under the hand of an officer or attorney duly authorised.

3. Registration for the AGM opens on Monday 17th June, 2024 at 8:00 a.m. and will close on Friday 21st, June 2024 at 12:00 noon. Shareholders will not be able to register after 21st, June 2024, 12:00 noon.

4. A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2023 may be viewed on the Bank website www.creditbank.co.ke. A printed copy may be requested from the Bank's head office, One Africa Place, Westlands, Nairobi or our Company's Share Registrar, Custody and Registrars Services, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, Nairobi between 9.00AM to 3.00PM from Monday to Thursday and Friday 8.30AM to 12.30PM.

Credit Bank
My Friend, My Bank

Head Office, 14th Floor, One Africa Place, Waiyaki Way
P.O. Box 61064-00200, City Square - Nairobi, Kenya
+254 709 072 000 | +254 20 228 3000
customerservice@creditbank.co.ke
www.creditbank.co.ke

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