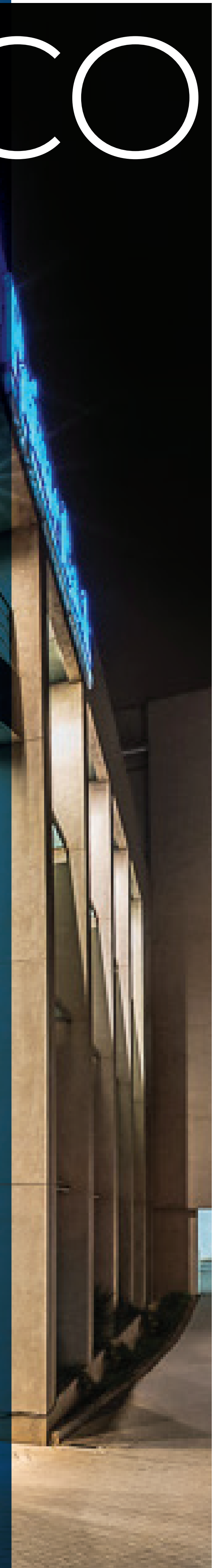
30 YEARS
OF PUTTING
YOU FIRST

Prime Bank
PUTTING YOU FIRST

ANNUAL REPORT
& FINANCIAL STATEMENTS
2022


Prime Bank



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About Prime Bank

Who we are

Prime Bank Ltd is one of the leading private banks in Kenya and was founded in 1992. Serving its customers for over 30 years, with a network of 22 branches, Prime Bank has the expertise to deliver flexible, efficient and personalized services.

Over the years, the Bank has presence in other African countries such as Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe where it acquired Barclays Bank of Zimbabwe through its associate bank First Capital Bank.

In 2017, the group acquired 80.72% shareholding of Tausi Assurance Limited. In 2018, the Bank issued a private placement which was successfully subscribed by longstanding customers and long serving staff. The private placement raised over KShs. 2 Billion.

The Bank also partnered with new investors Afric Invest Azure SPV, a Special Purpose Vehicle, jointly formed by Afric Invest and Catalyst Principal Partners, currently trading as Metier holding 24.2% stake in the Bank.

Both equity fund managers are of international repute having longstanding business relationships with International Development finance institutions (DFIs); such as International Finance Corporation (IFC), PROPARCO, European Investment Bank (EIB), CDC Group, International Pension Fund (IPF), African Development Funds, among others.

The capital injection further strengthens the Bank's capital base to bolster:

- Institutionalizing the governance and shareholding
- Expansion of local and regional network
- Optimization of services
- New products and services
- Further digitalizing of operations while continuing to provide enhanced services to our customers.

Over time, the Bank has built strong partnerships with international organizations to enable it provide long term foreign currency finance to its clients. The partners include:

- PROPARCO, French DFI
- European Investment Bank.

The Bank also has correspondent relationships with other banks across the globe to enable its customers meet their international business obligations.

Bank has developed its business interests in other African countries such as

Malawi, Botswana, Mozambique, Zambia, and in Zimbabwe where it acquired Barclays Bank of Zimbabwe through its associate bank First Capital Bank.

Our Value System

Integrity
We practice the highest standard of personal and corporate ethics in all our dealings.

Respect
We respect the unique contributions of every employee, valuing the diversity of their experiences, ideas and initiatives.

Teamwork
We become stronger as an organization through teamwork with our associates from all of our business areas.

Quality
We are committed to upholding the highest standards of professionalism, service and performance.

Social Responsibility
We care for and contribute to our communities.

Our Vision

To be the financial service provider of first choice.

Our Mission

To provide quality and acceptable personalized financial services to our customers while observing compliance, growth and shareholder value.

Product Portfolio Solutions

CORPORATE BUSINESS & PERSONAL LOANS

TRANSACTIONAL BANKING

DIGITAL SOLUTIONS

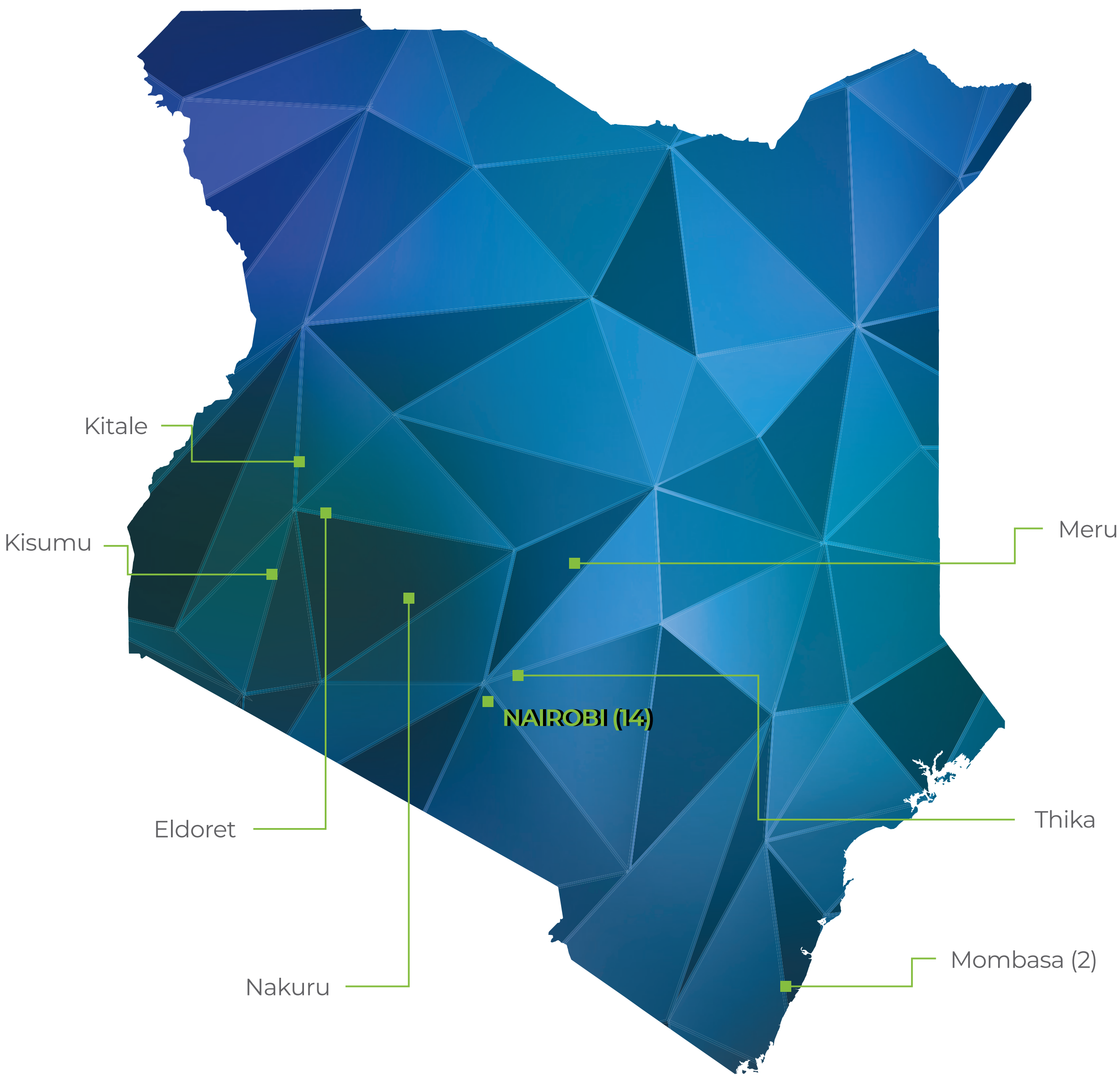
TRADE FINANCE

CASH MANAGEMENT SOLUTIONS

INVESTMENTS

Local Network

22 Branches Countrywide



Regional Presence

Our Partners

FIRST CAPITAL BANK

FMBcapital Holdings plc is the Mauritius-based holding company of the FMBcapital Group. It is listed on the Malawi Stock Exchange and has banking and finance operations in five SADC countries, namely Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

The FMBcapital Group has consolidated its position as a leading regional commercial bank and its growing SADC footprint serves the cross-border banking needs of businesses operating in the sub-Sahara region.

AFRICINVEST

AfricInvest is an investment and financial services company based in Tunisia. Uniquely positioned as one of the most experienced private equity investors on the continent, AfricInvest has dedicated investment teams focused on Africa, and employs 90 professionals based in 11 offices.

Tausi Assurance Company Limited
"A Symbol of Trust, Security and Progress"

TAUSI ASSURANCE

Tausi Assurance Company limited is committed to providing individuals and businesses with a wide range of general Insurance products to protect the things they value most.

Tausi offers, Industrial all Risks, Fire and Allied perils, Consequential Loss and Business Interruption, Engineering, Burglary, Marine, Contractors All Risks, Workmen's Compensation, Public Liability, Group Personal Accident, Political Violence and Terrorism, Money, Fidelity Guarantee, Domestic Package, Motor, Personal Accident and many more.

METIER

Metier is a South Africa based independent owner managed private equity firm founded in 2003. Metier operates two parallel investment practices, the Capital Growth practice that concentrates on mid-cap entrepreneurial businesses requiring growth capital in sectors which demonstrate emerging market growth, and the Sustainable Capital practice that targets investments in energy efficiency, renewables, water and waste management businesses and projects supporting Africa's development. Since its formation, Metier has grown to comprise a team of over 40 professionals with offices in Johannesburg, Mauritius and Nairobi, and representation in London.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Corporate Information

Board of Directors

Dr. Rasik C. Kantaria
CHAIRMAN

Dr. Rasik Kantaria is the founder and Chairman of Prime Bank Limited. He holds a Bsc (Economics) degree from London.

Dr. Kantaria is also the founder and Chairman of Prime Capital Holdings Limited. He is a co-founder and former Chairman of First Capital Bank previously known as First Merchant Bank Limited Malawi and Tausi Assurance Company Limited.

Dr. Kantaria served as a director at the Deposit Protection Fund Board appointed by the Central Bank of Kenya. He is chairman and director of many other companies in the tourism, real estate, and manufacturing industries.

He is a long standing Rotarian and for his outstanding contribution towards humanity, he has been conferred with an Honorary Doctor of Humanities Degree by The United Graduate College & Seminary, USA.

President of the Republic of Kenya H.E. William Ruto has also awarded Dr. Kantaria with the Head of States Commendation (HSC) civilian award for his exemplary service to the nation.

Mr. Shantilal K. Shah
VICE-CHAIRMAN

A Bachelor of Commerce (Honours) graduate and a practicing Accountant, Mr. Shantilal Shah is a FCA (Chartered Accountant, UK), a FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya).

Mr. Shah is also a director at Tausi Assurance Company Limited.

Mr. Amar Kantaria
EXECUTIVE DIRECTOR

Mr. Amar Kantaria is a Bachelor of Arts (Honours) graduate and holds an MBA in International Management.

Mr. Amar Kantaria was appointed as the Executive Director of Prime Bank Limited in 2008 after serving as Deputy Chief Executive for over five years.

Mr. Amar Kantaria is also a Director at Tausi Assurance Company Limited since July 2010.

Board of Directors (continued)

Mr. Terry Davidson
DIRECTOR

Terry Davidson is a veteran banker having spent 3 decades with Citibank in various geographies and capacities including Region Head for East and Southern Africa.

He was also Chief Executive Officer of Kenya Commercial Bank (KCB) for 5 years.

For the past few years, Mr. Davidson has worked as an independent consultant and currently serves as Chairman of FMBcapital Holdings plc, the Mauritius-based holding company of the FMBcapital Group (FMBCH) and Chairman of First Capital Bank Ltd, Malawi, the Malawian subsidiary of the group.

In addition, he is also Chairman of the Maa Trust, a Trustee of Gertrude's Children's hospital and an independent director of tourism company Nawiri Ltd.

He was previously a founder member of the Kenya Capital Markets Authority, a member of the Capital Markets Tribunal, the Kenya Deposit Protection Fund, Chairman of the Kenya Bankers Association and past council member of the University of Nairobi.

Mr. David G.M. Hutchison
DIRECTOR

Mr. David G. M. Hutchison joined Prime Bank Board as a director in 2006. He is a Certified Public Accountant and a former Senior Partner of Ernst & Young Eastern Africa.

He has many years of experience in audit, tax advice and financial management, reconstruction and consulting covering various industry sectors, in a number of African countries. He is the current Chairman of Banda Group Educational and Property Groups.

He is a Non-Executive Director of ICEA Lion General Insurance Company Limited, ICEA Lion Life Assurance Company Limited, East Africa Reinsurance Company Limited, among others.

Mr. Jinaro K. Kibet
DIRECTOR

Mr. Jinaro Kipkemoi Kibet was appointed to the board in 2014. An Advocate of the High Court of Kenya of 32 years standing. He is a founding Partner of TripleOKlaw LLP Advocates, a top tier City law firm where he is also the Senior Partner in the corporate and commercial department.

Prior to turning his attention to corporate- commercial work, he had a very successful career in litigation at which time he handled several landmark and high profile cases.

Mr. Kibet currently serves on several other boards including Unga Group PLC, Telkom Kenya, Athletics Kenya among others .

Board of Directors (continued)

Mr. Farid Mohamed
DIRECTOR

Mr. Mohamed was appointed to the Board in 2016.

A financial advisor to the private sector, Mr. Mohamed has over 25 years experience in structuring and arranging finance for projects ranging from large infrastructure in Europe, South East Asia and Latin America, to projects in East and Southern Africa, covering finance, industrial, energy (generation and transmission), and transportation (ports and roads) sectors.

He has regularly acted as an advisor to development finance institutions including the World Bank, IFC, DEG and KfW and currently advises public and private companies in Eastern Africa on the development of corporate strategy and arrangement of project and structured financing for new projects and for privatization of infrastructure.

Mr. Mohamed holds a Master of Science (MSc.) and Masters of Business Administration (MBA).

Mr. Skander Khalil Oueslati
DIRECTOR

Mr. Skander K. Oueslati joined Prime Bank Board on 8th February 2020. He holds a Master's degree from Massachusetts Institute of Technology, USA, and Engineering degrees from France's Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées.

Prior to joining AfricInvest Group as a Senior Partner to oversee investments in Africa, he worked for BMCE Bank International in London and the International Finance Corporation in Washington DC, USA. Mr. Oueslati has extensive investment management experience as well as board experience, the latest being his nomination to the board of Tausi Assurance Co. Ltd.

Mrs. Ruth Kinyanjui
DIRECTOR

Ruth is an organisational transformation and technology consultant in financial services sector. She has over fifteen years of experience working with global consultancy firms, among them PwC, KPMG and PKF.

She enjoys working on organisational functions to meet world-class criteria by helping leadership drive service offering, strategy, people, processes, technology and business intelligence to achieve next-level organizational success.

Ruth has also been involved in economic analysis of East Africa economies through major TV and Radio stations in Kenya.

She holds an MBA – Strategic Management, B.Com – Finance, CPA (K) and member of ICPAK.

Mr. Rajeev Pant
CHIEF EXECUTIVE OFFICER

Mr. Rajeev Pant was appointed Chief Executive Officer in March 2023

With over 33 years of work experience, Mr. Pant has a wealth of expertise in Corporate Finance, International Banking, Financial Advisory Services, Business Development and Management cutting across the international banking arena.

He has previously worked for Mashreq Bank, First Abu Dhabi Bank, Credit Agricole, National Australia Bank, Development Bank of Singapore, among others.

Mr. Pant is an Associate Member of the Institute of Chartered Accountants of India and holds a Bachelor's Degree in Commerce.

Mr. Arun Shah
COMPANY SECRETARY

Mr. Arun Shah has vast experience in accounting and secretarial practice spanning over 40 years.

He was appointed Company Secretary of Prime Bank in 1992, having been involved in the formation of the Bank the same year.

He is a fellow of the Institute of Chartered Accountants in England & Wales. He is also an Associate Member of Institute of Certified Public Accountants of Kenya and Institute of Certified Secretaries of Kenya.

Bank Information

PRINCIPAL PLACE OF BUSINESS
L.R. 209/8571
Prime Bank Building
Riverside Drive
P.O. Box 43825 – 00100
Nairobi

REGISTERED OFFICE
L.R. 209/8890
Kenindia House
Loita Street
P.O. Box 43825 - 00100
Nairobi

LAWYERS

KIRUTI & COMPANY ADVOCATES
P. O Box 13160 - 00100
Nairobi

MACHARIA MWANGI & NJERU ADVOCATES
P.O. Box 10627 - 00100
Nairobi

A B PATEL & PATEL ADVOCATES
P. O. Box 80274 - 80100
Mombasa

MANDLA & SEHMI ADVOCATES
P. O. Box 48642 - 00100
Nairobi

MAHINDA & MAINA COMPANY ADVOCATES
P. O. Box 42508 - 00100
Nairobi

SECRETARY

A.H. SHAH
Company Secretary
P.O. Box 46559 - 00100
Nairobi

AUDITOR

DELOITTE AND TOUCHE LLP
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092 - 00100
Nairobi

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Chairman's Statement

> As we marked our 30th Anniversary, we took the opportunity to pause and look back with pride at those who have been instrumental in building this solid institution.

The year 2022 marked a significant milestone in Prime Bank's history as it celebrated 30 years of service to its customers.

We started in 1992 as a small bank with one branch, 20 employees and capital of KShs. 30 Million. Prime Bank currently employs over 500 staff across all its operations with over KShs. 24 Billion in capital.

30 years later, we serve in excess of 50,000 individual and corporate customers with loans extended to over 4,000 customers.

From its inception, the Bank has anchored its business practices on quality products and services, respect to its customers, integrity, teamwork, and caring for the communities with the sole purpose of always putting customers first.

Prime Bank is a solid institution with a story of resilience, hard work, exponential growth and partnerships.

On our 30th anniversary, and with the approval of the Board of Directors of Prime Bank Group, I am delighted to present to you the Group's Annual Report and Financial Statements for the Financial Year 2022.

Operating Environment

Global economic growth took a dip to 3.2 per cent in 2022, more than one percentage decrease, contrary to what had been projected at the end of 2021.

This was mainly attributed to the post COVID-19 pandemic effects, Russia's war of aggression in Ukraine and the associated cost-of-living crisis in many countries in the world, leading to what the World Bank has termed as the 'lost decade'.

Kenya's economy grew by 5.6 percent in 2022, a slower pace than 7.5 percent recorded in the previous year. Most sectors recorded slow growth, with agriculture and manufacturing being the hardest hit.

Group Performance

The Group's Net Profit for the year was KShs. 3.75 Billion, representing a 14.6 per cent increase from KShs. 3.27 Billion same period last year.

The Group's balance sheet expanded by 11 per cent to KShs. 142.98 Billion from KShs. 128.83 Billion.

The Group's total net interest income grew by 7.3 per cent from KShs. 5.5 Billion to KShs. 5.9 Billion. Non-interest income grew by 23 per cent to KShs. 2.7 Billion from KShs. 2.2 Billion.

Customer Satisfaction

We are committed to provide exceptional services. We have strengthened our relationship channels, making it easier for our customers to access our services. Our customer satisfaction index has improved considerably. The Bank's staff are dedicated to providing our customers with top quality services , and we continuously invest in training, technology and development programs to equip our staff with necessary skills to effectively serve our customers. We also invest in systems and infrastructure, enabling us to deliver seamless services to our customers.

Corporate Governance and Board Changes

As a reputable financial institution, we continue to carry out regular review of our corporate governance structures in line with regulatory requirements.

During the period under review, Ms. Ruth Kinyanjui, an expert in Financial Accounting, Auditing and Risk management, joined the board. Having served in various functions in leading audit firms in the country, Ms. Kinyanjui holds a CPA (K) with an MBA in Strategic Management.

Dividends and Annual General Meeting

The directors recommended and paid final dividend of KShs. 150 per share for the year 2021 equivalent to a total sum of KShs. 997.4 million (Interim dividend declared and paid was KShs.81 per share) was paid in 2022.

The directors proposed a final dividend of Kshs.165 per share for the year 2022 equivalent to KShs.1, 097 Million. During the year the Bank paid an interim dividend of KShs.75 per share equivalent to KShs. 499 Million.

Corporate Social Initiatives

At Prime Bank, we have maintained our corporate value of caring for the society through extending our support to a diverse range of community initiatives.

During our 30th Anniversary, Prime Bank continued to support deserving students for their education. In 2022, needy students from SCLP Samaj School Nairobi West and Gulab Lochab Academy Eldoret were the beneficiaries of Prime Bank Bursary Program. The two schools received a total of KShs. 2.3 Million from the Bank as that year's bursary for needy students. During the period under review, Prime Bank in partnership with Sunrise Walkers, Rotary Club of Parklands, Rotary Clubs of District 9212, Red Cross and Parklands Sports Club joined hands to donate 250 metric tonnes of food items to feed 20,000 families facing starvation.

The initiative was part of efforts to rally Kenyans to come to the aid of millions of Kenyans in need of food aid in Marsabit, Samburu, Isiolo, Garissa and Wajir. Through this intervention, each family received 20kgs of maize flour, 5kgs beans, 1kg cooking fat and 1kg of salt.

We also joined hands with community based organizations such as Hindu Council of Kenya, Giants Group of Nairobi, East Africa Swaminarayan Temple, and Ramagarhia Youth Association among others to support their community initiatives.

Going Forward

The year 2023 started on a sad note for us at Prime Bank with the demise of our beloved Managing Director Mr. Bharat Jani.
Mr. Jani joined Prime Bank in 2003 and rose through the ranks to become the Managing Director.

Under his leadership, the Bank achieved significant milestones including the transformation of the Bank from Tier III to Tier II, expansion of branch network from 7 to 22 branches and exemplary financial performance, among many other achievements.
He was a rare yet perfect combination of an astute banker and compassionate person whose personal relationship with our customers immensely contributed to the growth and success of the Bank.

We will dearly miss him. However, his legacy of excellence, honesty and integrity lives on through our staff to carry on with the vision of the Bank.

Notwithstanding the loss, the Board is confident that Mr. Rajeev Pant who was appointed Chief Executive Officer in March 2023, will continue to steer the Bank to greater heights. He is a qualified Accountant and career banker with an international banking career spanning three decades.

Looking Ahead

The global economic outlook for the year 2023 remains uncertain amid high inflation, ongoing effects of Russia's invasion of Ukraine, and post COVID 19 pandemic.

Kenya's economy is expected to expand by 5.8% in 2023, a slower pace than the previously forecast 6.1% because of lower growth in the agricultural sector.

Like other countries in the region, we are yet to recover from the worst drought in four decades, which has seen a jump in the prices of basic commodities, effects of a weaker currency and heavy public debt load.

However, Kenya is the only economy in East Africa whose projected economic growth has been revised upwards by the International Monetary Fund, perhaps an indication of how resilient and dynamic our economy is.

Appreciation

As we marked our 30th Anniversary, we took the opportunity to pause and look back with pride at those who have been instrumental in building this solid institution.

I pay homage to our founding partners, directors', and employees who have stood by the Bank since it was established. All the accomplishments of the Bank over the last 30 years would not have been possible without their dedication and input in the initial stages.
I thank my fellow Directors, past and present, for their commitment at both board and committee levels.

To our customers, we remain true to our clarion call of "Putting you first'. We will always endeavor to meet and exceed your banking and financial expectations.

To our regulators, in particular, Central Bank of Kenya, Capital Markets Authority and the Treasury, we look forward to the next 30 years of collaboration and stable environment for the financial industry.

In conclusion, the Bank has had a successful year in 2022, and our financial, customer satisfaction and organizational growth are testaments to the dedication of our staff, management and board. We are confident that we will continue to offer unparalleled services to our customers and remain committed to our mission of being a leading financial institution in the country.

Thank you for your unwavering support.

Dr. Rasik Kantaria

Chairman

Chief Executive Officer's Statement

"Through growth in customer deposits, net interest income and non–funded income, as well as improved operational efficiencies, Prime Bank remained resilient and continued to post impressive results."

Prime Bank's performance for the year ended 31st December 2022 remained resilient to the market dynamics, and recorded impressive results.

Operating Environment

During the year 2022, Central Bank of Kenya (CBK) formulated a risk-based lending model to price loans following the repealing of the Interest Cap law in 2019. This model is to enable Banks lend to customers based on the estimated risks of each borrower. The period under review saw CBK approving the risk based pricing models of various Kenyan banks, including that of Prime Bank.

In the year under review, the regulator also operationalized the Central Bank of Kenya (Digital Credit Providers) Regulations, 2022. The regulations provide for the licensing, governance, and oversight of digital credit providers who were until then not under the purview of CBK, with a view to securing and protecting the interests of the borrowers or those availing their services.

Bank Performance

It is against this background that I present to you the highlights of Prime Bank's financial performance for the year 2022 and our outlook for the year 2023.

Through growth in customer deposits, net interest income and non–funded income, as well as improved operational efficiencies, Prime Bank remained resilient and continued to post impressive results.

The Bank posted a net profit of KShs. 3.54 Billion for the year 2022, a 17.2 per cent jump compared to KShs. 3.02 Billion reported in 2021. The Bank recorded an increase of 11 per cent in assets from KShs. 126.5 Billion recorded last year to KShs.140.4 Billion.

During the year under review, investment in Government securities yielded KShs. 7.2 Billion representing a 9 percent increase from KShs. 6.6 Billion same period last year.

The Bank's net advances grew by 7.6 per cent, from KShs. 38.02 Billion to KShs. 40.9 Billion, while total deposits grew by 10.7 per cent to close the year at KShs. 107.6 Billion compared to KShs. 97.2 Billion recorded in 2021.

Liquidity ratio of the Bank stood close to 80 percent, significantly above the CBK's statutory requirement of 20 percent.

The Bank maintained strong capital adequacy position, ending the year with core capital of KShs. 24.2 Billion against Central Bank of Kenya's statutory requirement of KShs. 1Billion.

Operational Highlights

In the course of the year under review, we continued to focus on our expansion program by relocating our Branch in Trans Nzoia, Kitale town to a spacious premise for the convenience of our customers.

In our endeavor to provide quality products and services, we launched the Prepaid Multicurrency Card. The prepaid card is available in five currencies viz. Kenya Shillings, US Dollar, GB Pounds, Euros and Indian Rupee. Traders, travelers, diaspora and business community who will be the main users of this product, will be able to load multiple currencies on a single card and use them within Kenya as well as internationally.

Through our guiding principle of Putting our customers first, the Bank won the award in Customer Experience through a Survey conducted by Kenya Bankers Association during 2022.

Moving Forward

At Prime Bank, and for me personally, the year 2023 started on a very sad note with the passing away of our Managing Director Mr. Bharat Jani. Having joined the Bank in March 2023, Mr. Jani warmly welcomed me and made sure I settled down quickly and comfortably in the new environment.

The late Mr. Jani will be remembered for his invaluable contribution to the growth of Prime Bank. While it is a difficult time for all of us, I am encouraged by the focus and commitment I have seen from all my colleagues amid the tragedy.

The year ahead is likely to have challenges, but I am confident that we will navigate our way through the uncertainty together by exploring the opportunities that lie ahead.

We remain committed to putting our customers first through our exemplary services and providing the best customer experience.

We have embarked on upgrading our core banking system to improve our efficiency. We are also revamping our Internet banking platform (PrimeNet) to include new and enhanced features for both our corporate and retail customers.

Appreciation

The support, loyalty and cooperation from our customers, partners and shareholders, throughout the year immensely contributed to the Bank's stellar performance in 2022.

On behalf of the management and staff of Prime Bank, I express our gratitude to the Board of Directors, under the leadership of Dr. Rasik Kantaria, for their continuous support, encouragement, and guidance during the 2022 financial year.

I also thank all the members of staff for their commendable work and achievements during the period under review. It is a great honor to be part of the leadership of Prime Bank and leading it into its next phase of growth.

Rajeev Pant

Chief Executive Officer

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors have pleasure in submitting their report together with the consolidated audited financial statements for the year ended 31 December 2022.

Incorporation
The Bank is domiciled in Kenya where it is incorporated as a private company limited by shares. It is governed by the Companies Act, 2015 of the Laws of Kenya. The address of the registered office is set out on page 16.

Directorate
The directors who held office during the year and to the date of this report are set out on page 12. In accordance with Article 91 of the Articles of Association, Mr. S. K. Shah and Mr. D.G.M. Hutchison retired by rotation and, being eligible, offered themselves for re- election.

The Board regrets to note that Mr. Bharat Jani passed away on 16th March 2023.

Principal activities
The principal activities of the Bank are corporate and retail banking services while its subsidiaries provide general insurance services (with the exception of aviation insurance services) as well as insurance agency services.

Dividend
The directors recommended and paid final dividend of Kshs. 150 per share for the year 2021 equivalent to a total sum of Kshs. 997.4 million (Interim dividend declared and paid was Kshs.81 per share) and was paid in 2022.

The directors proposed a final dividend of Kshs. 165 per share for the year 2022 equivalent to Kshs. 1,097 million. During the year the Bank paid an interim dividend of Kshs.75 per share equivalent to Kshs. 499 million.

Statement as to disclosure to the Bank's auditor
With respect to each director at the time this report was approved:

(a) There is, so far as the person is aware, no relevant audit information of which the Bank 's auditor is unaware; and

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

Terms of appointment of the auditor
Deloitte & Touché LLP continue in office in accordance with the Company's Articles of Association and section 719 of the Kenya 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. The agreed auditor's remuneration of Kshs. 7.1 million has been charged to profit or loss in the year.

Business review
Total assets of the Bank grew from Kshs. 126.5 billion in 2021 to Kshs. 140.4 billion in 2022; deposits grew from Kshs. 97.2 billion to Kshs. 107.6 billion in 2022, while profit after tax increased by 17% from Kshs. 3.0 billion to Kshs. 3.5 billion in 2022.

Management is aware of the liquidity risks that are inherent in the Banking sector and have maintained the Bank's liquidity ratio average at 80.2% which is well above the 20% requirement under CBK regulations.

As regards to the credit risk, a rigorous monitoring and close supervision of our credit portfolio throughout the year ensured that the non-performing loans were well under control at 5.9%, way below the industry average.

The Bank continues to cross sell products and services between banking and insurance clients which is expected to boost performance in the future.

Staff training and hiring of new talent is at the heart of Prime Bank's long-term growth plans.

Report of Directors FOR THE YEAR ENDED 31 DECEMBER 2022(continued)

Future outlook

Global GDP is estimated to have slowed down 3.2% in 2022 from 6.0% in 2021 mainly due inflationary pressures, tightening of financial conditions in most regions and Russia's invasion of Ukraine.

Kenyan GDP grew by an estimated 5.6% in 2022 from 7.5% in 2021 due to high arising from high food and energy prices and the effect of drought.

The outlook for the global economy is expected to slow down to 2.7% in 2023 as the fight against inflation and Russia's war in Ukraine weigh on economic activities.

The Kenyan economy is expected to slow down to 5.2% in 2023 due to uncertainties arising from control over inflation and drought.

The Bank continues to advance its digital transformation journey by embracing technology driven products and services. This is expected to reduce operational costs, optimize on technological investments and also increase non funded income.

Approval of financial statements

The financial statements were approved at a meeting of the Board of Directors held on 29th March 2023.

By order of the board

Company Secretary

Nairobi, Kenya

Statement of Directors' Responsibilities

The Kenya Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank keeps proper accounting records that: (a) show and explain the transactions of the Bank; (b) disclose, with reasonable accuracy, the financial position of the Bank; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

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

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

Having made an assessment of the Bank'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 Bank's ability to continue as a going concern.

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

Approved by the board of directors on 29th March 2023 and signed on its behalf by:

.... Director

.... Director

.... Director

.... Secretary

Statement Of Corporate Governance on the Financial Statements

Prime Bank Limited recognises the need to conduct its business with integrity and in line with the generally accepted corporate practice. The Bank will strive to maintain the highest standards of corporate governance.

Shareholders' Responsibilities

The shareholders' role is to appoint the Board of Directors and independent auditors. The role of the shareholders is to ensure that the Board is accountable for effective and efficient governance.

Board Of Directors

The Board of Directors is responsible for the governance of the Bank and to ensure that the Bank complies with the law and the highest standards of corporate governance and business ethics. The Board is responsible for the long term growth and profitability of the Bank.

The Directors guide the management and maintain full and effective control over financial, strategic, operational and compliance issues of the Bank. The Board is chaired by a non-executive director and has eight other non-executive directors, an executive director and the Managing Director. The Board meets regularly and holds special meetings as and when the situation demands.

Attendance of directors at board meetings

Number of Board Meetings held in 2022 - 6

Name of Director	Number of meetings attended
Mr. R. C. Kantaria (Chairman)	6
Mr. S. K. Shah (Vice Chairman)	6
Mr. A. R. Kantaria (Executive)	5
Mr. Bharat Jani (Managing Director) (Deceased)	6
Mr. D. G. M. Hutchison	6
Mr. T. M. Davidson	5
Mr. J. K. Kibet	6
Mr. F. Mohamed	6
Mr. S. Oueslati	6
Mr. B. Yohannes Resigned in Oct 2022	5
Mrs. R. Kinyanjui Appointed in March 2022	3

Board Performance Evaluation

As per the Prudential Guidelines of the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance as well as that of the individual directors and various committees is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted its evaluation and that of the members, the Chairman and the Board Committees. The aim was to assess their capacity and effectiveness relative to their mandates, and identify challenges that need to be addressed in the coming year. Each Board member was provided with the questionnaire before the Board meeting convened to discuss the evaluation. At the Board meeting, the ratings given by each member of the Board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall ratings were agreed taking into account the individual ratings and comments. Overall, the Board concluded that it was operating in an effective manner.

The Board has appointed 7 board committees – Strategy, Credit, Debt Management, Audit, Risk and Compliance, IT, and Human Resource and Nomination Committee and 2 management committees – Operations and Assets and Liability Management committees. These committees have been given terms of reference and they meet regularly. These committees make recommendations to the Board on matters which fall under their mandates.

Statement Of Corporate Governance on the Financial Statements (continued)

A. Board Committees

Strategy Committee

The Strategy Committee is headed by Mr. T. Davidson who is a non-Executive Director. Mr. Skander Oueslati, non - Executive Director, Mr. A. R. Kantaria, Executive Director, and Mr Bharat Jani (Deceased), Managing Director are the other members of the committee. Its objectives are to discuss, review and recommend to the Board the overall strategy and changes thereto including the business plan and to adopt appropriate business strategy, approve annual budgets, capital raising plans, asset acquisitions and disposals, incurrence of overhead or capital expenditures, any re-organizational changes and other strategy related matters.

Credit Committee

Mr. Farid Mohamed, a non-Executive Director chairs the Credit Committee. Mr. Skander Oueslati a non-Executive Director, Mrs. Ruth Kinyanjui , a non-Executive Director, Mr. A. R. Kantaria, Executive Director and Mr. Bharat. Jani (Deceased), Managing Director are the other members of the Committee. Specific responsibilities of the committee are:

i) To provide direction to credit management from a credit strategy perspective.

ii) Overview credit portfolio, terms & conditions of all credit facilities granted by sanctioning authorities within their delegation powers and ratify them, granting facilities falling under the jurisdiction of the Committee and recommending proposals beyond the power of the committee to the Board for approval.

Debt Management Committee

This Committee is chaired by Mr. Jinaro K. Kibet who is a non - Executive Director. Mr. Farid Mohamed, a non-Executive Director, Mr. A. R. Kantaria, Executive Director and Mr Bharat Jani (Deceased), the Managing Director are the other members of this Committee. Specific responsibilities of the committee are to periodically review the health of the credit portfolio and take corrective measures for recovery and follow up to ensure that NPA is kept minimum.

Audit Committee

The Audit Committee is chaired by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, non - Executive Director and Mr. J.K. Kibet, non-Executive Director are the other members of this Committee. The Committee assists the board in discharging its duties in relation to financial reporting, asset management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions and then discusses risk exposure areas. Wherever review process reveals cause for concern or scope for improvement, it makes recommendations to the board on remedial actions. The objective of Internal Audit is to provide the committee with reliable, valued, insightful and timely assurance on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

Risk and Compliance Committee

The Risk and Compliance Committee is headed by Mr. S. K. Shah who is a non-Executive Director. Mr. T. Davidson, non-Executive director is the other member of this Committee. The committee reviews the risk, ascertains causes of concern and suggests the scope of improvement.

IT Committee

Mr T. Davidson, a non-Executive Director chairs this Committee, Mr A. R. Kantaria, Executive Director and Mr Bharat Jani (Deceased) the Managing Director are the other members of this Committee. Its main objectives are to review and approve most effective mechanism for supplying IT facilities and infrastructures to deliver in terms of business requirements and to recommend IT strategy in light of changing technology and other external factors and also to review IT projects and providing guidance. It also ensures compliance and tracking of regulatory IT requirements including cyber security risks besides addressing the risks as determined by internal and external regulators.

A. Board Committees (Continued)
Human Resource & Nomination Committee (HRNC):

The HR and Nomination Committee is headed by Jinaro K. Kibet, a non-Executive Director. Other members are Mr S. Oueslati non-Executive Director, Mr A. R. Kantaria, Executive Director and Mr Bharat Jani (Deceased)the Managing Director. The committee is responsible for providing development opportunities for Senior Management staff that relate to performance in order to achieve organizational and individual needs and regular review and improve where necessary human resource structures and processes in line with the direction of the board.

B. Management Committees
Assets and Liability Management Committee (ALCO)

This Committee is chaired by the Managing Director. The Executive Director, the Chief Operating Officer, Chief Manager (Treasury), Deputy General Manager (Credit) and the Chief Finance Officer are the other members of the Committee. This Committee monitors the liquidity position of the Bank and the compliance with regard to statutory liquidity ratio, cash reserve ratio and foreign exchange exposure as per the prudential guidelines of the Central Bank of Kenya. The Committee decides on investments in various securities to maximise the returns. It also analyses the interest rate risk and fixes the interest rates in line with the market trends.

Operations Committee

The Operations Committee is chaired by the Chief Operating Officer and comprises the Head of Risk, Head of Audit, Chief Finance Officer, Deputy General Manager (IT) and two Branch Managers. The Committee reviews various operational procedures of the Bank and decides on changes to be effected to improve operational efficiency, improve service delivery and minimise manual procedures.

Employees

The Bank adheres to the Banking code of ethics which requires all employees to conduct business with high integrity. The staff members sign a declaration of fidelity and secrecy.

Publication of accounts

The Bank publishes its results every quarter in the newspapers as per the Prudential Guidelines of Central Bank of Kenya. Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of all relevant statutes, rules and regulations.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PRIME BANK LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

We have audited the accompanying financial statements of Prime Bank Limited (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (together, the "Group"), set out on pages 34 to 129, each of which comprise the consolidated and bank statement of financial position as at 31 December 2022 and consolidated and bank statements of profit or loss, consolidated and bank Statement of comprehensive income, consolidated and bank statement of changes in equity and consolidated and bank statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2022 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan 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 Auditors' responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and 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 Directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Kenyan Companies Act, 2015 and the Statement of Corporate Governance, which were obtained prior to the date of this report. The other information does not include the Group and the Bank financial statements and our auditors' report thereon.

Our opinion on the Group and the Bank financial statements does not cover the other information and 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PRIME BANK LIMITED (Continued)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 Bank and/or its subsidiary or to cease their operations, or have no realistic alternative but to do so.

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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's and the 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's and the Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause Bank and/or its subsidiary to cease to continue as going concerns.

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

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

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

Report of the Independent Auditors

To The Members Of Prime Bank Limited (continued)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the Directors
In our opinion, the information given in the report of the directors on pages 22 to 23 is consistent with the accompanying bank and consolidated financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Charles Munkonge Luo, Practising certificate No. 2294.

Charles Luo

29th March 2023

For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi

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Financial Statements

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2022

	Note	2022 Kshs. '000	2021 Kshs. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,562,838	6,330,041
Placements and balances with other banks	6	11,060,793	8,957,230
Treasury bills and term notes	7	11,008,088	20,499,366
Investment in securities measured at amortised cost	8	35,157,808	33,941,047
Investment in securities at fair value through other comprehensive income	9	27,250,090	12,657,390
Investment in ordinary shares at fair value through other comprehensive income	10(a)	4,653,115	3,973,133
Investment in ordinary shares-at fair value through profit or loss	10(b)	83,696	99,497
Tax recoverable		65,049	87,396
Loans and advances	11	40,950,360	37,974,486
Other assets	12	1,639,164	1,180,690
Right of use - leasehold land	14	653,699	658,373
Property and equipment	15(a)	1,697,126	1,434,634
Right of use asset	16	285,606	238,359
Intangible assets	17	766,623	796,197
Deferred tax asset	18	1,141,468	-
TOTAL ASSETS		142,975,523	128,827,839
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	3,001	22,070
Deposits from customers	20	107,186,713	96,864,456
Lease liabilities	21	314,667	267,549
Other liabilities	22	2,438,865	1,981,137
Deferred tax liability	18	68,767	119,711
TOTAL LIABILITIES		110,012,013	99,254,923
EQUITY			
Share capital	24	6,649,390	6,649,390
Share premium	25	5,230,109	5,230,109
Other reserves	26	19,547,731	17,276,155
Proposed dividends	36	1,097,149	-
Equity attributable to equity holders of the parent		32,524,379	29,155,654
Non-controlling interests		439,131	417,262
TOTAL EQUITY		32,963,510	29,572,916
TOTAL LIABILITIES AND EQUITY		142,975,523	128,827,839

These financial statements on pages 34 to 129 were approved by the Board of Directors on 29th March 2023 and signed on its behalf by: -

Director | Director | Director | Director

Bank Statement of Financial Position

AS AT 31 DECEMBER 2022

	Note	2022 Kshs. '000	2021 Kshs. '000
ASSETS			
Cash and balances with the Central Bank of Kenya	5	6,564,442	6,332,115
Placements and balances with other banks	6	11,014,984	8,894,382
Treasury bills and term notes	7	11,008,088	20,499,366
Investment securities measured at amortised cost	8	33,766,758	32,979,596
Investment in bonds at fair value through other comprehensive income	9	26,519,721	11,765,593
Investment in ordinary shares at fair value through other comprehensive income	10(a)	4,564,249	3,868,946
Tax recoverable	23	12,755	21,406
Loans and advances	11	40,923,643	37,917,560
Other assets	12	1,054,384	658,432
Investment in subsidiaries	13	1,405,692	1,405,692
Right of use - leasehold land	14	565,000	568,407
Property and equipment	15(b)	1,454,129	1,194,979
Right of use assets	16	285,606	238,359
Intangible assets	17	107,504	137,390
Deferred Tax Asset	18	1,141,468	-
TOTAL ASSETS		140,388, 423	126,482,223
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	19	3,001	22,070
Deposits from customers	20	107,583,684	97,221,176
Lease liability	21	314,667	267,549
Other liabilities	22	1,103,332	806,746
Deferred tax liability	18	-	53,645
TOTAL LIABILITIES		109,004,684	98,371,186
EQUITY			
Share capital	24	6,649,390	6,649,390
Share premium	25	5,230,109	5,230,109
Other reserves	26	18,407,091	16,231,538
Proposed dividends	36	1,097,149	-
TOTAL EQUITY		31,383,739	28,111,037
TOTAL LIABILITIES AND EQUITY		140,388,423	126,482,223

These financial statements on pages 34 to 129 were approved by the Board of Directors on 29th March 2023 and signed on its behalf by: -

....	....	....	....
Director	Director	Director	Director

Consolidated Statement of Profit or Loss

AS AT 31 DECEMBER 2022

	Note	2022 Kshs. '000	2021 Kshs. '000
Interest income calculated using effective interest rate method	27	11,798,441	10,647,708
Interest expense	28	(5,921,453)	(5,116,944)
Net interest income		5,876,988	5,530,764
Fees and commission income	29	470,893	501,896
Foreign exchange gains		504,265	323,056
Dividend income		162,769	74,392
Other income	30	1,555,309	1,363,152
		8,570,224	7,793,260
Allowance for impairment of financial instruments	31	(638,407)	(857,562)
Other operating expenses	32	(4,129,645)	(3,737,930)
Profit before tax	33	3,802,172	3,197,768
Income tax (charge)/credit	23	(51,064)	68,319
Profit for the year		3,751,108	3,266,087
Attributable to:			
Equity holders of the parent		3,681,760	3,206,041
Non-controlling interests		69,348	60,046
		3,751,108	3,266,087
Earnings per share (basic and diluted) (Kshs.):			
Attributable to:			
Equity holders of the parent (Kshs.)	34	554	482

Consolidated Statement of Comprehensive Income

AS AT 31 DECEMBER 2022

	Note	2022 Kshs. '000	2021 Kshs. '000
Profit for the year		3,751,108	3,266,087
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
Loss arising during the year		(548,819)	(211,468)
Deferred income tax on fair value gain		153,188	(24,578)
		(395,631)	(236,046)
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain on fair value through other comprehensive income - Equity investments	10(a)	601,014	2,132,546
Deferred income tax credit/(expense)on equity investments		886,625	(636,666)
		1,487,639	1,495,880
Revaluation of Land and Buildings		124,850	-
Deferred income tax (expense)on revaluation surplus		(37,454)	-
		87,396	-
Other comprehensive income for the year, net of tax		1,179,404	1,259,834
Total comprehensive income for the year, net of tax		4,930,512	4,525,921
Attributable to:			
Equity holders of the parent		4,870,928	4,467,038
Non-controlling Interest		59,584	58,883
		4,774,924	4,525,921

Bank Statement of Profit or Loss

AS AT 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
Interest income calculated using effective interest rate method	27	11,798,441	10,647,708
Interest expense	28	(5,921,453)	(5,116,944)
Net interest income		5,876,988	5,530,764
Fees and commission income	29	470,893	501,896
Foreign exchange gains		504,265	323,056
Dividend income		322,589	156,724
Other income	30	75,167	89,234
		7,249,902	6,601,674
Allowance for impairment of financial instruments	31	(638,410)	(856,067)
Other operating expenses	32	(3,088,449)	(2,842,761)
Profit before tax	33	3,523,043	2,902,846
Income tax credit	23	18,104	117,925
Profit for the year		3,541,147	3,020,771
Earnings per share (basic and diluted) (Kshs.)	34	533	454

Bank Statement of Comprehensive Income

AS AT 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
Profit for the year		3,541,147	3,020,771
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Fair value through other comprehensive income financial assets:			
(Loss) arising during the year		(510,628)	(195,110)
Deferred income tax on fair value gain		153,188	(24,578)
		(357,440)	(219,688)
Items that will not be reclassified to profit or loss in subsequent periods:			
Fair value gain on fair value through other comprehensive income - Equity investments	10(a)	616,334	2,122,221
Deferred income tax credit/(expense) on equity investments		886,625	(636,666)
		1,502,959	1,485,555
Revaluation of Land and Buildings		117,350	-
Deferred income tax (expense)on revaluation surplus		(35,204)	-
		82,146	-
Other comprehensive income for the year, net of tax		1,227,665	1,265,867
Total comprehensive income for the year, net of tax		4,768,812	4,286,638

All of the profit for the year and total comprehensive income are attributable to equity holders of the Bank.

Consolidated Statement of Changes in Equity

AS AT 31 DECEMBER 2022

	Share capital Kshs. '000	**Share Premium** Kshs. '000	**Retained earnings** Kshs. '000	**Proposed Dividends** Kshs. '000	**FVTOCI reserve** Kshs. '000	**Statutory Loan Reserve*** Kshs. '000	**Asset revaluation reserve** Kshs. '000	**Total** Kshs. '000	**Non-controlling interests** Kshs. '000	**Total Equity** Kshs. '000
Balance at 1 January 2021	6,649,390	5,230,109	11,780,618	538,601	634,667	353,022	558,564	25,744,971	397,750	26,142,721
Dividend paid-2020	-	-	-	(538,601)	-	-	-	(538,601)	-	(538,601)
Dividend paid-2021	-	-	(538,601)	-	-	-	-	(538,601)	(19,665)	(558,266)
Total comprehensive income:										
- profit for the year	-	-	3,206,041	-	-	-	-	3,206,041	60,046	3,266,087
- other comprehensive loss –FVTOCI	-	-	-	-	1,260,998	-	-	1,260,998	(1,163)	1,259,835
Acquisition of Prime merchant	-	-	19,706	-	-	-	-	19,706	(19,706)	-
Share capital adjustment	-	-	(1,000)	-	-	-	-	(1,000)	-	(1,000)
Increase in profit for PMIA	-	-	2,140	-	-	-	-	2,140	-	2,140
As at 31 December 2021	6,649,390	5,230,109	14,468,904	-	1,895,665	353,022	558,564	29,155,654	417,262	29,572,916

	Share capital Kshs. '000	**Share Premium** Kshs. '000	**Retained earnings** Kshs. '000	**Proposed Dividends** Kshs. '000	**FVTOCI reserve** Kshs. '000	**Statutory Loan Reserve*** Kshs. '000	**Asset revaluation reserve** Kshs. '000	**Total** Kshs. '000	**Non-controlling interests** Kshs. '000	**Total Equity** Kshs. '000
Balance at 1 January 2022	6,649,390	5,230,109	14,468,904	-	1,895,665	353,022	558,564	29,155,654	417,262	29,572,916
Dividend paid-2021	-	-	(997,406)	-	-	-	-	(997,406)	-	(997,406)
Dividend paid-2022	-	-	(498,704)	-	-	-	-	(498,704)	(38,175)	(536,879)
Total comprehensive income:										
- profit for the year	-	-	3,681,760	-	-	-	-	3,681,760	69,348	3,751,108
- other comprehensive loss –FVTOCI			-	-	1,102,325	-	86,384	1,188,709	(9,304)	1,179,405
Decrease in profit for PMIA	-	-	(5,634)			-		(5,634)	-	(5,634)
Proposed Dividends	-	-	(1,097,149)	1,097,149	-	-	-	-	-	-
As at 31 December 2022	6,649,390	5,230,109	15,551,771	1,097,149	2,997,990	353,022	644,948	32,524,379	439,131	32,963,510

Bank Statement of Changes in Equity

AS AT 31 DECEMBER 2022

	Share capital Kshs. '000	Share Premium Kshs. '000	Retained earnings Kshs. '000	Proposed Dividends Kshs. '000	FVTOCI reserve Kshs. '000	Statutory Loan Reserve* Kshs. '000	Asset revaluation reserve Kshs. '000	Total Equity Kshs. '000
Balance at 1 January 2021	6,649,390	5,230,109	10,958,635	538,601	629,838	353,022	542,006	24,901,601
Dividend paid-2020	-	-	-	(538,601)	-	-	-	(538,601)
Interim Dividend paid-2021(note 36)	-	-	(538,601)	-	-	-	-	(538,601)
Total comprehensive income: – Profit for the year	-	-	3,020,771	-	-	-	-	3,020,771
– Other comprehensive income	-	-	-	-	1,265,867	-	-	1,265,867
At 31 December 2021	6,649,390	5,230,109	13,440,805	-	1,895,705	353,022	542,006	28,111,037

	Share capital Kshs. '000	Share Premium Kshs. '000	Retained earnings Kshs. '000	Proposed Dividends Kshs. '000	FVTOCI reserve Kshs. '000	Statutory Loan Reserve* Kshs. '000	Asset revaluation reserve Kshs. '000	Total Equity Kshs. '000
Balance at 1 January 2022	6,649,390	5,230,109	13,440,805	-	1,895,705	353,022	542,006	28,111,037
Final Dividend paid-2021	-	-	(997,406)	-	-	-	-	(997,406)
Interim Dividend paid-2022(note 36)	-	-	(498,704)	-	-	-	-	(498,704)
Total comprehensive income: – Profit for the year	-	-	3,541,147	-	-	-	-	3,541,147
– Other comprehensive income	-	-	-	-	1,145,519	-	82,146	1,227,665
Proposed Dividends	-	-	(1,097,149)	1,097,149	-	-	-	-
At 31 December 2022	6,649,390	5,230,109	14,388,693	1,097,149	3,041,224	353,022	624,152	31,383,739

*The statutory loan reserve was previously presented within retained earnings in the audited financial statements for 2021. In the financial statements for 2022, this has been removed from the retained earnings and separately disclosed in the statement of changes in equity.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,802,172	3,197,768
Adjustments for:			
Gain on disposal of property and equipment		4,141	4,190
Dividends income		(162,769)	(74,392)
Fair value loss/ (gain) on fair value through profit or loss	10(b)	15,801	(7,041)
Allowances for impairment of financial instruments	31	638,407	857,562
Amortisation of leasehold land	14	11,977	11,977
Depreciation of property and equipment	15(a)	180,859	189,599
Depreciation of right of use assets	16	102,896	99,023
Amortisation of intangible assets	17	58,179	62,040
Interest on lease liabilities	21	20,308	-
Operating cash flows before changes in:		4,671,971	4,340,726
Movement in restricted cash and balances with Central Bank of Kenya	5	(320,849)	(173,490)
Increase in treasury bills and term notes maturing after 91 days		(676,937)	(863,348)
(Increase)in loans and advances		(2,975,874)	(1,937,929)
(Increase) in other assets		(458,476)	(165,739)
Increase in deposits from customers		10,322,257	8,634,382
Increase/(decrease) in other liabilities		457,728	(62,621)
Cash flows generated from operating activities		11,019,820	9,771,981
Income taxes paid	23	(218,763)	(277,223)
Interest paid on lease liabilities	21	(20,308)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,780,749	9,494,758
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		3,484	1,986
Dividend received		162,769	74,392
Proceeds from redemption of investment securities measured at amortised cost	8	5,867,876	3,656,503
Proceeds from redemption of treasury bills and term notes	7	21,150,000	21,750,000
Proceeds from sale of investments in bonds measured at FVTOCI	9	1,857,664	6,596,704
Redemption of medium-term note paid off		-	(1,086,500)
Purchase of investments in ordinary shares at FVTPL	10(a)	-	(598,848)
Purchase of investment securities measured at amortised cost	8	(7,098,981)	(14,014,237)
Purchase of treasury bills and term notes	7	(11,663,099)	(22,706,698)
Purchase of investments in bonds measured at FVTOCI	9	(17,057,882)	(2,316,066)
Purchase of property and equipment	15	(335,557)	(79,592)
Purchase of intangible assets	17	(28,605)	(74,598)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(7,142,331)	(8,796,954)

Consolidated Statement of Cash Flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent	36	(1,496,113)	(1,077,202)
Dividends paid to non -controlling interests		-	(19,665)
Repayment of principal lease liabilities	21	(107,724)	(101,961)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,603,837)	(1,198,828)
Net increase/(decrease) in cash and cash equivalents		2,034,581	(501,024)
Cash and cash equivalents at 1 January		12,424,368	12,925,392
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	14,458,949	12,424,368

Bank Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 KShs '000	2021 KShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,523,043	2,902,846
Adjustments for:			
Loss on disposal of property and equipment		4,141	4,190
Dividends income		322,589	156,724
Allowances for impairment of loans and advances	31	638,410	856,067
Amortisation of leasehold land	14	10,710	10,710
Depreciation of property and equipment	15(b)	169,418	178,870
Depreciation of right of use assets	16	102,896	99,023
Amortisation of intangible assets	17	51,580	56,378
Interest on lease liabilities	21	20,308	-
Operating cash flows before changes in:		4,843,095	4,264,808
Movement in restricted cash and balances with Central Bank of Kenya	5	(320,849)	(173,490)
Increase in treasury bills and term notes maturing after 91 days		(640,253)	(864,604)
Increase in loans and advances		(3,006,083)	(1,949,265)
Increase in other assets		(395,952)	(69,069)
Increase in deposits from customers		10,362,508	8,632,550
Increase(decrease) in other liabilities		296,586	(136,731)
Cash flows from operating activities		11,139,052	9,704,199
Income taxes paid	23	(163,748)	(193,197)
Interest paid on lease liabilities		(20,308)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,954,996	9,511,002
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		3,484	1,986
Dividend received		(322,589)	(156,724)
Proceeds from redemption of treasury bills and term notes	7	21,150,000	21,750,000
Proceeds from redemption of investment securities measured at amortised cost	8	5,867,876	3,656,503
Proceeds from sale of investments in bonds measured at FVTOCI	9	1,688,584	6,560,996
Redemption of medium-term note paid off		-	(1,086,500)
Purchase of treasury bills and term note	7	(11,663,099)	(22,706,698)
Purchase of investment securities measured at amortised cost	8	(6,669,000)	(13,993,000)
Purchase of investment in securities measured at FVTOCI	9	(17,007,380)	(2,105,145)
Purchase of shares at FVTOCI	10(a)	-	(598,848)
Investment in subsidiary		-	(9,600)
Purchase of property and equipment	15(b)	(326,192)	(75,524)
Purchase of intangible assets	17	(21,694)	(67,812)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(7,300,010)	(8,830,366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid during the year	36	(1,496,113)	(1,077,202)
Repayment of lease principal liabilities	21	(107,724)	(101,961)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,603,837)	(1,179,163)
Net decrease / (increase) /in cash and cash equivalents		2,051,149	(498,527)
Cash and cash equivalents at 1 January		12,363,595	12,862,122
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	14,414,744	12,363,595

Notes to the Consolidated Financial Statements

AS AT 31 DECEMBER 2022

1. GENERAL INFORMATION

Prime Bank Limited is a financial institution licensed under the Kenyan Banking Act, Cap 488 that provides corporate and retail banking services in various parts of the country. The Bank is incorporated and domiciled in Kenya under the Kenyan Companies Act, 2015. The consolidated financial statements comprise the Bank and its subsidiaries together referred to as "the Group". The Group is primarily involved in corporate and retail banking and all classes of general insurance except for aviation insurance services as defined by section 31 of the insurance Act (Cap 487).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2022

The following new and revised IFRSs were effective in the current year but had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 3 - Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The amendments do not have any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.
If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The adoption of the amendments has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments do not have any material impact on the disclosures or on the amounts reported in these financial statements.

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Annual Improvements include amendments to four standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2022 (continued)

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.
The amendments do not have any material impact on the disclosures or on the amounts reported in these financial statements.

(ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2022

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17 (including the June 2021 amendments to IFRS 17)	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It considers market interest rates and the impact of policyholders' options and guarantees.

In June 2021, the Board issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the Board issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

Both the group's audit committee and the Board Risk from a IFRS 17 Steering committee that provide oversight and governance over the implementation of the IFRS 17 project. The committee is comprised of executive management as well as senior management from various functions including finance, Actuarial, risk information technology and operations. Accounting policy papers, actuarial methodologies and disclosure requirements have been defined and are being implemented. The IFRS 17 project team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments. Where applicable, the policy and methodology papers are updated to requirements. The group has made significant progress in the implementation of IFRS 17.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

ii) Relevant new standards and amendments to published standards effective for the year ended 31 December 2022 (continued)

IFRS 17 Insurance Contracts (continued)

However, the following still need to be finalized to complete the transition to IFRS 17;

- Completing any remaining system development and key controls required to implement IFRS 17
- Produce and request business sign-off, as well as external audit sign-off of transition balances.
- Finalize the layout and disclosure of the IFRS 17 compliant annual financial statements.
- Finalize the management reporting and key performance measures.
- Continue engaging with the executive committee and business through various training initiatives.
- Finalize and implement future financial and data governance processes and accountabilities.

Management expects to provide an update on the likely impact in the half-year results. For the purposes of planning the company's financial resources, the pre-tax estimate (based on the year-end 2022 position) of the accounting changes that may result from adopting IFRS 17 is that there will be impact in the reported annual profits by approximately KShs 20 to 40 million.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Group anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

Amendments to IAS 1 – Classification of liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

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

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2023, with early application permitted.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued

ii) New and revised IFRS Standards in issue but not yet effective for the year ended 31 December 2022 (Continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 regarding disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

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

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:

– Right-of-use assets and lease liabilities
– Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

(iii) Early adoption of standards

The Group and the Bank did not early-adopt any new or amended standards in 2022.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. 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, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations, as issued by the International Accounting Standard Board (IASB) and the requirements of the Kenyan Companies Act, 2015. The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest thousand (Kshs. '000), except where otherwise indicated and have been prepared on a historical basis except for fair value through other comprehensive income investments, investments at fair value through profit or loss and land and buildings which have been measured at fair value. For the Kenyan Companies Act, 2015 reporting purposes, in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit and loss and the statement of comprehensive income.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9. Recognition and Measurement is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(d) Fair value measurement

The Bank measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Bank. 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. Fair value related disclosures for financial instruments that are measured at fair value are made in note 43.
A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of assets or liability and level of fair value hierarchy, as explained above.

External valuers are involved for valuation of significant assets, such as properties.

(e) Financial assets and liabilities

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on trade date basis. Regular was purchases or sales of financial assets that require delivery of assets within time frame established by regulation or convention in the market place.

All recognized financial assets are measured subsequently in their entirety amortized cost or fair value, depending on the classification of the assets.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e)Financial assets and liabilities (continued)

(i) Classification and subsequent measurement

The Group and the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

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

Debt instruments

These are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, cash and bank balances, bank deposits.

Classification and measurement of debt instruments depend on:

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

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

•**Amortized cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

•**Fair value through other comprehensive income (FVTOCI):** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

• **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortized cost or FVTOCI are measured at fair value through profit or loss. A business model in which an entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets, would result in an FVTPL business model.

• A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the profit or loss statement within other gains/(losses) in the period in which it arises. Interest income from these financial assets is included in the finance income.

• **Business model:** The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for assets include past experience on how the cash flows of these assets were collected, how the performance of the assets is evaluated and reported to key management personnel, the risks that affect the performance of the business model (and the financial assets within) and in particular, the way that those risks are managed; and how assets managers are compensated.

• **Cash flow characteristic of the asset:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Equity instruments

These are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

When the Bank derecognizes investments in equity instruments measured at FVTOCI, it shall disclose:

- The reason for disposing the investments,
- The fair value of investments at the date of derecognition; and
- The cumulative gain or loss on disposal.

(ii) Measurement Methods

Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets — assets that are credit-impaired at initial recognition — The Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that are not impaired at initial recognition but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e., net of the expected credit loss provision).

Initial recognition and measurement

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Financial assets (continued)

(iii) Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortized cost and FVTOCI and with the exposure arising from project finance loan and corporate loans. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) The time value of money; and
c) 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.

(iv) Modification of loans

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

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

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

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

Financial Liabilities

(i) Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortized cost, except for:

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

Financial guarantee contracts and loan commitments.

(ii) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Derecognition (Continued)

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Please refer to Credit Management for a detailed credit risk management and approach within note 45.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required by an accounting standard or interpretation and is specifically disclosed in the accounting policies of the Group and the Bank.

(f) Recognition of income and expenses

Revenue is recognized as control is passed, either over time or at a point in time. The Group recognises revenue over time after each performance obligation is fulfilled.

Interest income and expense is recognised in profit or loss on Effective Interest Rate (EIR) method.

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as at fair value through other comprehensive income financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees and commission charged for services provided or received by the Group are recognised as the services are provided or received, for example completion of the underlying transaction.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Other income

Other income includes dividends received from subsidiaries and associate investments, fair value gains and losses on investment securities at fair value through profit or loss, dividends relating to those financial instruments and insurance business income from subsidiary.

Dividend income is recognized when the Bank's right to receive payment is established.

(g) Property and equipment

Property and equipment, except for land and buildings, are stated at cost less accumulated depreciation and impairment in value.

Land and buildings are measured at fair value at the dates of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses on buildings. Valuations are performed every five years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.
A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and equipment (continued)

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off carrying amounts of the assets over their expected useful lives.

The annual depreciation rates in use are: -	
Furniture and fittings	12.50%
Office equipment	12.50%
Motor vehicles	25.00%
Computer equipment	25% - 33.33%
Leasehold improvements	12.50%

Buildings are depreciated over their shorter of the estimated useful lives and the lease term.

Freehold land is not depreciated as it is deemed to have an indefinite life.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'other income' or 'other expenses' in profit or loss in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

(h) Foreign currency translation

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(i) Defined contribution plans

The Bank contributes to a statutory defined contribution provident scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200 per employee per month. The Bank also operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Bank and employees.

The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

(i) Employee benefits
(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

(j) Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

1. Current tax

Current income tax is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2. Deferred tax

Deferred taxation is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled, the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no-longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income or equity are also recognized in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Guarantees, acceptances and letters of credit

Letters of credit, acceptances, guarantees and performance bonds are generally written by the 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. These obligations are accounted for as off financial position transactions and disclosed as contingent liabilities.

(l) Leases

The Group and the Bank as a lessee

The Group and the Bank assesses whether a contract is or contains a lease, at inception of the contract. The Group and the Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group and the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group and the Bank re measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re measured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group and the Bank did not make any such adjustments during the periods presented.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases (continued)

The Group and the Bank as a lessee (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently carried at revalued amounts, based on quinquennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses.

Whenever the Group and the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group and the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group and the Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other operating expenses' in profit or loss (see Note 8b).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group and the Bank has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group and the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(m) Intangible assets

The Bank's intangible assets include the value of computer software (swift software, finacle software and other associated costs) and Visa license fees. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be finite. Intangible assets are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset are reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in profit or loss in the expense category consistent with the function of the asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over the estimated useful lives as follows:

- Computer software — 5 years
- Visa license — 5 years

(n) Dividends

Dividends are charged to equity in the year in which they are declared. Proposed dividends are appropriated from retained earnings into a separate component of equity until they are declared.

(o) Impairment of non - financial assets

The Bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that an asset may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment of non - financial assets (Continued)

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered, if available. If no such transactions can be identified, an appropriate valuation model is used. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses are recognized in the profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation surplus taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(p) Provisions and contingent liabilities

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

(q) 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.

(r) Assets obtained by taking possession of collateral

The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

(s) Statutory loan loss reserve

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

(t) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand and bank balances held with Central bank and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value and are used by the group in management of short-term commitment.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, unrestricted balances with central bank and money market placement.

(u) Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholders and the weighted average number of ordinary shared outstanding for the effects of all dilutive potential shareholders if any.

(v) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

i) Critical accounting judgements in applying the Bank's policies

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank considers qualitative and quantitative reasonable and supportable forward-looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk

ii)Key sources of estimation uncertainty

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

Fair value measurement and valuation

Some of the company's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the company uses market – observable data to the extent it is available. Where level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

Key sources of estimation uncertainty in the accounting for operating leases include the following:

- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

5. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs'000
Cash in hand	597,367	458,979	598,971	461,053
Balances with Central Bank of Kenya:				
- Restricted balances (Cash Reserve Ratio)	3,181,681	2,860,832	3,181,681	2,860,832
- Unrestricted balances	2,137,962	2,639,886	2,137,962	2,639,886
Cheques and items for clearing	645,828	370,344	645,828	370,344
	6,562,838	6,330,041	6,564,442	6,332,115

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2022, the Cash Reserve Ratio requirement was 4.25% (2021 – 4.25%) of all qualifying deposits.

These funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 4.25%.

Cheques and items for clearing represent values of outward clearing instruments, which are awaiting clearance.

6. PLACEMENTS AND BALANCES WITH OTHER BANKS

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs'000
Lending to other banks and financial institutions (average rate 8%)	3,671,510	2,786,210	3,625,701	2,723,362
Lending and balances with banks outside Kenya (average rate 4%)	7,389,283	6,171,020	7,389,283	6,171,020
	11,060,793	8,957,230	11,014,984	8,894,382

The weighted average effective interest rate on lending to other banks was 8% (2021: 8%) and to banks outside Kenya was 4% (2021: 4%).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

7. TREASURY BILLS AND TERM NOTES

	Group and Bank	
	2022 KShs '000	**2021 KShs '000**
At 1 January	20,499,366	19,546,369
Purchase of investment securities maturing after 182 days	8,813,099	19,661,868
Purchase of investment after 91 days to 182 days	2,350,000	-
Purchase of investment securities maturing within 91 days	500,000	3,044,830
IFRS 9 provision	(4,377)	(3,701)
Retirement of investment securities	(21,150,000)	(21,750,000)
At 31 December	11,008,088	20,499,366
Treasury bills:		
Maturing within 91 days of the date of acquisition	493,852	1,494,830
Maturing after 91 days to 182 days of the date of acquisition	2,202,865	2,039,951
Maturing after 182 days of the date of acquisition	8,269,609	16,926,609
IFRS 9 provision	(59,417)	(63,498)
Term notes:		
Maturing within 91 days of the date of acquisition	20,000	20,000
Maturing after 182 days of the date of acquisition	103,312	103,311
IFRS 9 provision	(22,133)	(21,837)
	11,008,088	20,499,366

Treasury bills are debt securities issued by the Government of Kenya and are classified as Amortised cost.
The weighted average effective interest rate on the treasury bills as at 31 December 2022 was 9.12% (2021: 8.13%).

Term notes are debt instruments issued by private and public entities for varied terms and maturity dates.

8. INVESTMENT IN SECURITIES MEASURED AT AMORTISED COST

	GROUP		BANK	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs '000**	**2021 KShs '000**
At 1 January	33,941,047	23,604,068	32,979,596	22,663,839
Purchase of investment securities	7,098,981	14,014,237	6,669,000	13,993,000
Retirement of investment securities	(5,867,876)	(3,656,503)	(5,867,876)	(3,656,503)
IFRS 9 provision	(14,344)	(20,755)	(13,962)	(20,740)
At 31 December	35,157,808	33,941,047	33,766,758	32,979,596
Treasury bonds				
Maturing after 182 days of the date of acquisition	35,157,808	33,941,047	33,766,758	32,979,596

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

9 . INVESTMENT IN BONDS- MEASURED AT FVTOCI

The bonds are debt securities and include bonds issued by the Government of Kenya and offshore bonds are classified as securities measured at fair value through other comprehensive income (FVTOCI). The fair value of the bonds is determined by reference to published price quotations in an active market.

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
As at 1 January	12,657,390	17,133,607	11,765,593	16,399,465
Purchase of investment securities	17,057,882	2,316,066	17,007,380	2,105,145
Sales (maturity) of investment securities	(1,857,664)	(6,596,704)	(1,688,584)	(6,560,996)
Foreign exchange loss	(33,659)	(4,663)	(28,897)	(4,125)
IFRS 9 provision	(25,040)	20,552	(25,143)	21,214
Loss on fair valuation	(548,819)	(211,468)	(510,628)	(195,110)
As at 31 December	27,250,090	12,657,390	26,519,721	11,765,593
The maturity profile is as follows:				
Within one year	7,631,289	296,932	7,631,289	296,932
After one year but within two years	660,015	3,402,791	660,015	3,402,791
After two but within five years	6,366,645	4,653,321	6,366,645	4,653,320
After five years	12,671,814	4,358,980	11,940,758	3,466,393
IFRS 9 provision	(79,673)	(54,634)	(78,986)	(53,843)
As at 31 December	27,250,090	12,657,390	26,519,721	11,765,593

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

10. INVESTMENT IN ORDINARY SHARES

a) At fair value through other comprehensive income (FVTOCI)

	GROUP		BANK	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs '000**	**2021 KShs '000**
Investment in listed shares (note 10 (a)(i))	3,696,960	3,095,947	3,608,094	2,991,760
Investment in privately held shares (note 10 (a)(ii))	956,155	877,186	956,155	877,186
Total investment in ordinary	4,653,115	3,973,133	4,564,249	3,868,946
i) Investment in listed shares:				
Investment as at 1 January	3,095,947	963,401	2,991,760	869,539
Additions				
Gain in fair value	601,013	2,132,546	616,334	2,122,221
As at 31 December	3,696,960	3,095,947	3,608,094	2,991,760

The fair value of the listed shares is determined by reference to published price quotations in an active market. FVTOCI investments in ordinary shares have no fixed maturity date or coupon rate. The fair value movement relating to First Merchant Bank, Malawi amounts to a profit of Kshs. 618 Million (2021: profit of Kshs. 2.12 billion). The fair value movement relating to locally held shares amounts to a profit of Kshs.1.69million (2021: profit of Kshs. 1.6 million).

	BANK	
ii) Investment in privately held shares:	**2022 KShs '000**	**2021 KShs '000**
First Capital Bank Limited, Botswana	154,602	141,833
First Capital Bank Mozambique	148,793	136,505
First Merchant Bank Capital Holdings (FMBCH) preference shares	652,760	598,848
As at 31 December	956,155	877,186

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

10.INVESTMENT IN ORDINARY SHARES (Continued)

a) At fair value through other comprehensive income (FVTOCI) (Continued)

II) Investment in privately held shares: (Continued)

	BANK	
	2022 KShs '000	2021 KShs '000
The movement in these shares is summarised below		
As at 1 January	877,186	268,757
Foreign exchange gain	78,969	9,581
Additions	-	598,848
As at 31 December	956,155	877,186

Investment in privately held shares comprises investments in shares of First Capital Bank Limited, Botswana and First Capital Bank Limited, Mozambique, which are unquoted companies. These shares are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The unquoted shares are measured at FVTOCI with unrealized gains/losses recognized as other comprehensive income until the investment in derecognized or impaired.

The fair value of the shares was measured using a combination of market approach (using market multiples) and net assets value approach. There was no material impairment noted on the unquoted shares in the current year (2021: nil).

The valuation technique used is the discounted cash flows method.

The valuation is based on level 3.

b) At fair value through profit or loss (GROUP)

	BANK	
	2022 KShs '000	2021 KShs '000
At start of the year	99,497	92,456
Fair value (loss)/gain	(15,801)	7,041
At end of the year	83,696	99,497

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

11. LOANS AND ADVANCES

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs'000
Loans and advances to customers (gross)	43,375,678	40,444,593	43,345,145	40,384,164
Less – Allowances on impairment of loans and advances	(2,425,318)	(2,470,107)	(2,421,502)	(2,466,604)
Loans and advances to customers net of ECL allowances	40,950,360	37,974,486	40,923,643	37,917,560
Allowances on impairment of loans and advances				
Opening Balance	(2,470,107)	(1,820,191)	(2,466,604)	(1,818,574)
Additional Provisions in the year	(470,502)	(907,852)	(470,189)	(905,966)
Write off of fully provisioned loans	515,291	257,936	515,291	257,936
Loans and advances to customers (gross)	(2,425,318)	(2,470,107)	(2,421,502)	(2,466,604)

a) Lending concentration

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2022 %	2021 %
Agriculture	1	-
Building & Construction	2	3
Energy &Water	1	1
Financial Services	-	-
Manufacturing	30	30
Mining & Quarrying	-	-
Personal/Household	7	7
Real Estate	12	12
Tourism, Restaurant & Hotels	3	3
Trade	39	38
Transport & Communication	5	6
Total	100	100

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

11. LOANS AND ADVANCES (continued)

b) Maturity analysis

GROUP 2022	Within 30 days KShs'000	31-60 days KShs'000	61-90 days KShs '000	More than 90 days KShs'000	TOTAL KShs'000
Agriculture	-	1,656	-	227,725	229,381
Building & Construction	370,494	19,135	19,120	605,967	1,014,716
Energy & Water	11,449	44,177	34,168	469,405	559,199
Financial Services	-	-	93,795	9,526	103,321
Manufacturing	3,344,520	1,787,717	189,555	7,832,758	13,154,550
Mining & Quarrying	-	-	-	73,295	73,295
Personal/household	425,710	6,303	7,093	2,435,660	2,874,766
Real Estate	691,087	114,989	75,049	4,228,713	5,109,838
Tourism, Restaurant & Hotels	82,296	-	1,445	1,094,271	1,178,012
Trade	2,678,624	703,750	111,196	13,416,667	16,910,237
Transport & Communication	726,781	-	33,112	1,408,470	2,168,363
Total	8,330,961	2,677,727	564,533	31,802,457	43,375,678

BANK 2022	Within 30 days KShs'000	31-60 days KShs'000	61-90 days KShs '000	More than 90 days KShs'000	TOTAL KShs'000
Agriculture	-	1,656	-	227,725	229,381
Building & Construction	370,494	19,135	19,120	605,967	1,014,716
Energy & Water	11,449	44,177	34,168	469,405	559,199
Financial Services	-	-	93,795	9,526	103,321
Manufacturing	3,344,520	1,787,717	189,555	7,832,758	13,154,550
Mining & Quarrying	-	-	-	73,295	73,295
Personal/household	425,710	6,303	7,093	2,435,660	2,874,766
Real Estate	691,087	114,989	75,049	4,228,713	5,109,838
Tourism, Restaurant & Hotels	82,296	-	1,445	1,094,271	1,178,012
Trade	2,678,624	703,750	111,196	13,416,667	16,910,237
Transport & Communication	726,781	-	33,112	1,377,937	2,137,830
Total	8,330,961	2,677,727	564,533	31,771,924	43,345,145

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

11. LOANS AND ADVANCES (continued)

b) Maturity analysis (continued)

GROUP 2021	Within 30 days KShs'000	31-60 days KShs'000	61-90 days KShs '000	More than 90 days KShs'000	TOTAL KShs'000
Agriculture	1,325	-	-	199,771	201,096
Building & Construction	297,017	23,422	12,598	897,795	1,230,832
Energy & Water	10,778	1,064	-	379,054	390,896
Financial Services	-	-	49,162	9,919	59,081
Manufacturing	3,104,533	2,573,299	74,772	6,120,344	11,872,948
Mining & Quarrying	-	-	-	66,735	66,735
Personal/household	420,727	7,615	4,304	2,189,995	2,622,641
Real Estate	1,357,571	425,975	14,469	3,143,508	4,941,523
Tourism, Restaurant & Hotels	100,617	18,222	-	1,065,480	1,184,319
Trade	2,933,040	932,364	286,190	11,155,849	15,307,443
Transport & Communication	867,304	11,979	63,325	1,624,471	2,567,079
Total	9,092,912	3,993,940	504,820	26,852,921	40,444,593

BANK 2021	Within 30 days KShs'000	31-60 days KShs'000	61-90 days KShs '000	More than 90 days KShs'000	TOTAL KShs'000
Agriculture	1,325	-	-	199,771	201,096
Building & Construction	297,017	23,422	12,598	897,795	1,230,832
Energy & Water	10,778	1,064	-	379,054	390,896
Financial Services	-	-	49,162	9,919	59,081
Manufacturing	3,104,533	2,573,299	74,772	6,120,344	11,872,948
Mining & Quarrying	-	-	-	66,735	66,735
Personal/household	420,727	7,615	4,304	2,189,995	2,622,641
Real Estate	1,357,571	425,975	14,469	3,143,508	4,941,523
Tourism, Restaurant & Hotels	100,617	18,222	-	1,065,480	1,184,319
Trade	2,933,040	932,364	286,190	11,155,849	15,307,443
Transport & Communication	867,304	11,979	63,325	1,564,042	2,506,650
Total	9,092,912	3,993,940	504,820	26,792,492	40,384,164

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

12. OTHER ASSETS

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
Prepayments and deposits	269,696	240,987	269,696	240,987
Accrued income	293,417	232,275	293,417	232,269
Others*	1,076,051	707,428	491,271	185,176
	1,639,164	1,180,690	1,054,384	658,432

*Comprises amounts paid in advance for various projects being undertaken by the Bank, salary advances, deposits paid for properties to be acquired and withholding tax on interest on fixed deposits paid in advance. It also includes receivables arising out of insurance and reinsurance arrangements and reinsurer's share of contract liabilities.

13. INVESTMENT IN SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is as follows:

Details of investment	Country of incorporation	Activity	2022 % of equity interest	2021 % of equity interest	2022 KShs '000	2021 KShs'000
Tausi Assurance Company Limited	Kenya	General insurance	80.72%	80.72%	1,395,692	1,395,692
Prime Bank Bancassurance Intermediary Limited (Prime Merchant Insurance Agency Limited)	Kenya	Insurance agency	100%	100%	5,000	5,000
Prime Limited	Kenya	Advisory services	100%	100%	5,000	5,000
					1,405,692	1,405,692

The Bank owns 100% (100% -2021 of Prime Bank Bancassurance Intermediary limited an Insurance Agency that was incorporated and commenced trading in 2014.

The bank also invested Kshs. 5 million in Prime Limited a wholly owned subsidiary of the bank which will be offering advisory services. The subsidiary has not commenced operations.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

14. RIGHT OF USE - LEASEHOLD LAND

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
COST				
At 1 January	705,844	705,844	613,344	613,344
Revaluation	44,656	-	44,656	-
Reversal on revaluation	(93,000)	-	(93,000)	-
At 31 December	657,500	705,844	565,000	613,344
AMORTISATION				
At 1 January	47,471	35,494	44,937	34,227
Charge for the year	11,977	11,977	10,710	10,710
Reversal of revaluation	(55,647)	-	(55,647)	-
At 31 December	3,801	47,471	-	44,937
NET CARRYING AMOUNT				
At 31 December	653,699	658,373	565,000	568,407

Leasehold land relates to right of use and there is no corresponding lease liability because it's fully paid.

Leasehold land for the Bank was professionally valued by Knight Frank Valuers Limited. On the basis of open market value on 31 December 2022.

"The Rising Gem in Kenya's Banking Sector."

The road to 30 years (1992 - 2022)

First Branch at Kenindia House to 22 branches across the country.

From 20 employees to over 600 staff across the country.

Initial Capital of KShs. 30 Million to over KShs. 24.2 Billion

Prime Bank

PUTTING YOU FIRST

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THIRTY YEARS OF PUTTING YOU FIRST

Serving in excess of 50,000 customers

We now extend loans to over 4,000 customers.

Second largest Tier 2 bank operating in the country.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

15. PROPERTY AND EQUIPMENT - GROUP

a) Year ended 31 December 2022

COST/ VALUATION	Freehold land KShs'000	Buildings KShs'000	Leasehold improvements KShs'000	Furniture & fittings KShs'000	Office equipment KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Total KShs'000
At 1 January 2022	49,000	1,151,885	443,225	180,535	206,359	152,510	751,029	2,934,543
Additions	-	255,000	17,000	5,512	23,635	13,130	21,280	335,557
Revaluation	-	143,100	-	-	-	-	-	143,100
Eliminated on revaluation	(10,500)	(134,510)	-	-	-	-	-	(145,010)
Disposals	-	-	(15,542)	(283)	-	(11,987)	(15,438)	(43,250)
At 31 December 2022	38,500	1,415,475	444,683	185,764	229,994	153,653	756,871	3,224,940
DEPRECIATION								
At 1 January 2022	-	114,408	336,556	145,168	145,177	119,769	638,831	1,499,909
Charge for the year	-	30,993	28,678	7,673	18,051	20,582	74,882	180,859
Reversal on revaluation	-	(119,411)	-	-	-	-	-	(119,411)
Disposals	-	-	(7,920)	(283)	-	(9,905)	(15,435)	(33,543)
At 31 December 2022	-	25,990	357,314	152,558	163,228	130,446	698,278	1,527,814
NET CARRYING AMOUNT								
At 31 December 2022	38,500	1,389,485	87,369	33,206	66,766	23,207	58,593	1,697,126

The freehold land and buildings for the Bank were revalued as at 31 December 2022 by Knight Frank, registered valuers, on the open market value basis while the freehold land and buildings for the subsidiary were professionally valued by R.R. Oswald & Company Limited, registered valuers, on the basis of open market value on 28 December 2022. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognized in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2022 would have been Kshs. 15,645,000 and Kshs. 549,206,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

15. PROPERTY AND EQUIPMENT - GROUP (continued)

a) Year ended 31 December 2021

COST/ VALUATION	Freehold land KShs'000	Buildings KShs'000	Leasehold improvements KShs'000	Furniture & fittings KShs'000	Office equipment KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Total KShs'000
At 1 January 2021	49,000	1,151,885	438,824	174,627	200,509	142,105	714,932	2,871,882
Additions	-	-	16,042	6,088	5,875	15,490	36,097	79,592
Disposals	-	-	(11,641)	(180)	(25)	(5,085)	-	(16,931)
At 31 December 2021	49,000	1,151,885	443,225	180,535	206,359	152,510	751,029	2,934,543
DEPRECIATION								
At 1 January 2021	-	88,665	309,698	136,932	128,087	102,182	555,500	1,321,064
Charge for the year	-	25,743	32,323	8,415	17,115	22,672	83,331	189,599
Disposals	-	-	(5,465)	(179)	(25)	(5,085)	-	(10,754)
At 31 December 2021	-	114,408	336,556	145,168	145,177	119,769	638,831	1,499,909
NET CARRYING AMOUNT								
At 31 December 2021	49,000	1,037,477	106,669	35,367	61,182	32,741	112,198	1,434,634

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

15. PROPERTY AND EQUIPMENT - BANK

b) Year ended 31 December 2022

COST/ VALUATION	Freehold land KShs'000	Buildings KShs'000	Leasehold improvements KShs'000	Furniture & fittings KShs'000	Office equipment KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Total KShs'000
At 1 January 2022	49,000	914,544	440,770	114,730	206,359	145,087	671,889	2,542,379
Additions	-	255,000	17,000	5,116	23,635	10,130	15,311	326,192
Revaluation	-	135,600	-	-	-	-	-	135,600
Eliminated on revaluation	(10,500)	(134,510)	-	-	-	-	-	(145,010)
Disposals	-	-	(15,542)	(283)	-	(7,535)	(15,438)	(38,798)
At 31 December 2022	38,500	1,170,634	442,228	119,563	229,994	147,682	671,762	2,820,363
DEPRECIATION								
At 1 January 2022	-	93,068	334,101	92,488	145,177	115,087	567,479	1,347,400
Charge for the year	-	26,343	28,678	6,048	18,051	19,667	70,631	169,418
Eliminated on revaluation	-	(119,411)	-	-	-	-	-	(119,411)
Disposals	-	-	(7,920)	(283)	-	(7,535)	(15,435)	(31,173)
At 31 December 2022	-	-	354,859	98,253	163,228	127,219	622,675	1,366,234
NET CARRYING AMOUNT								
At 31 December 2022	38,500	1,170,634	87,369	21,310	66,766	20,463	49,087	1,454,129

The Bank's freehold land and buildings were revalued as at 31 December 2022 by Knight Frank, registered valuers, on the open market value basis. The carrying amount of the freehold land and buildings was adjusted to the revalued amount and the resultant surplus, net of deferred tax, was recognized in other comprehensive income and credited to the asset revaluation reserve in equity. If freehold land and buildings were measured using the cost model, their net carrying amounts as at 31 December 2022 would have been Kshs.15,645,000 and Kshs. 524,932,000 respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

15. PROPERTY AND EQUIPMENT - BANK (continued)

b) Year ended 31 December 2021

COST/ VALUATION	Freehold land KShs'000	Buildings KShs'000	Leasehold improvements KShs'000	Furniture & fittings KShs'000	Office equipment KShs'000	Motor vehicles KShs'000	Computer equipment KShs'000	Total KShs'000
At 1 January 2021	49,000	914,544	436,369	109,235	200,509	134,682	639,447	2,483,786
Additions	-	-	16,042	5,675	5,875	15,490	32,442	75,524
Disposals	-	-	(11,641)	(180)	(25)	(5,085)	-	(16,931)
At 31 December 2021	49,000	914,544	440,770	114,730	206,359	145,087	671,889	2,542,379
DEPRECIATION								
At 1 January 2021	-	71,825	307,243	86,053	128,087	98,414	487,662	1,179,284
Charge for the year	-	21,243	32,323	6,614	17,115	21,758	79,817	178,870
Disposals	-	-	(5,465)	(179)	(25)	(5,085)	-	(10,754)
At 31 December 2021	-	93,068	334,101	92,488	145,177	115,087	567,479	1,347,400
NET CARRYING AMOUNT								
At 31 December 2021	49,000	821,476	106,669	22,242	61,182	30,000	104,410	1,194,979

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

16. RIGHT-OF-USE ASSETS

The Bank leases branch premises for its use. Information about the leases in which the Bank is a lessee is presented below:

	GROUP AND BANK	
	2022 Kshs'000	**2021 Kshs'000**
At 1 January	506,881	456,935
Additions	150,143	49,946
At 31 December	657,024	506,881
DEPRECIATION		
At 1 January	268,522	169,499
Charge for the year	102,896	99,023
At 31 December	371,418	268,522
NET BOOK VALUE		
At 31 December	285,606	238,359
Amounts recognized in profit or loss		
Depreciation expense on right-of-use assets	102,896	99,023
Interest expense on lease liabilities (note 21)	20,308	15,829
At the end of the year	123,204	114,852

The group was not committed to any arrangements that are short term as at year end (2021 – Kshs. nil). All the property leases in which the group is the lessee contain only fixed payments.

The total cash outflow for the leases amounted to Kshs. 128 million (2021: Kshs. 118 million) being payment for both the principal and interest as disclosed in note 21. There are no restrictions or covenants imposed by lessors and the group did not enter into any sale and leaseback transactions during the year.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

17. INTANGIBLE ASSETS

GROUP	Computer software and Visa license fees KShs'000'	Good will KShs'000'	Total KShs'000'
31st December 2022			
COST			
As at 1 January	795,582	642,752	1,438,334
Additions	28,605	-	28,605
As at 31 December	824,187	642,752	1,466,939
AMORTISATION			
As at 1 January	642,137	-	642,137
Charge for the year	58,179	-	58,179
As at 31 December	700,316	-	700,316
NET CARRYING AMOUNT			
As at 31 December	123,871	642,752	766,623
31st December 2021			
COST			
As at 1 January	720,984	642,752	1,363,736
Additions	74,598	-	74,598
As at 31 December	795,582	642,752	1,438,334
AMORTISATION			
As at 1 January	580,097	-	580,097
Charge for the year	62,040	-	62,040
As at 31 December	642,137	-	642,137
NET CARRYING AMOUNT			
As at 31 December	153,445	642,752	796,197

The goodwill arose from the Bank's acquisition of Tausi Assurance Company Limited. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

The goodwill was tested for impairment at 31 December 2022. The recoverable amount was determined based on value in use calculations. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. A five-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 1.0%. The after-tax discount rate used was based on an assessment of the risks applicable to Tausi Assurance Company Limited and the outlook of the Kenyan economy. The discount rate calculated for the forecast years was 11% per annum. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units.

These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, the directors believe that the goodwill is not impaired.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

17. INTANGIBLE ASSETS (continued)

BANK	2022 KShs '000	2021 KShs '000
COST		
At 1 January	744,728	676,916
Additions	21,694	67,812
As at 31 December	766,422	744,728
AMORTISATION		
As at 1 January	607,338	550,960
Charge for the year	51,580	56,378
As at 31 December	658,918	607,338
NET CARRYING AMOUNT		
As at 31 December	107,504	137,390

Intangible assets comprise computer software and Visa license fees. Computer software is what the entity paid to acquire the Bank's core banking system and other peripheral systems. Visa license fees is paid for the use of the Visa payment system. Most of these assets will be amortised in the next four years. The Bank has not pledged its intangible assets as security for liabilities and therefore the Bank has no restriction over title of its assets as at 31 December 2022 and 31 December 2021.

18. DEFERRED TAX

Movement of the deferred tax liability during the year is as follows:

GROUP	At 1 January KShs '000	Recognised in statement of profit or loss KShs '000	Recognised in other comprehensive income KShs '000	At 31 December KShs '000
2022				
Arising from:				
Property and equipment	(215,116)	16,801	-	(198,315)
Provision for staff leave	6,000	(2,904)	-	3,096
Other provision	26,970	(14,120)	-	12,850
Provision for loans and advances	881,101	190,268	-	1,071,369
FVTOCI	(818,666)	-	1,002,367	183,701
	(119,711)	190,046	1,002,367	1,072,701

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

18. DEFERRED TAX (Continued)

GROUP (Continued)	At 1 January KShs '000	Recognized in statement of profit or loss KShs '000	Recognized in other comprehensive income KShs '000	At 31 December KShs '000
2021				
Arising from:				
Property and equipment	(239,187)	24,071	-	(215,116)
Provision for staff leave	6,000	-	-	6,000
Other provision	29,946	(2,976)	-	26,970
Provision for loans and advances	624,457	256,644	-	881,101
FVTOCI	(157,422)	-	(661,244)	(818,666)
	263,794	277,739	(661,244)	(119,711)

BANK	At 1 January KShs '000	Prior Year KShs '000	Recognized in statement of profit or loss KShs '000	Recognized in other comprehensive income KShs '000	At 31 December KShs '000
2022					
Arising from:					
Property and equipment	(144,032)	-	16,480	-	(127,552)
Provision for staff leave	6,000	-	(2,904)	-	3,096
Other provision	26,970	-	(14,121)	-	12,849
Provision for loans and advances	868,588	-	191,047	-	1,059,635
FVTOCI	(811,171)	-		1,004,611	193,440
	(53,645)	-	190,502	1,004,611	1,141,468
2021					
Arising from:					
Property and equipment	(167,743)	-	23,711	-	(144,032)
Provision for staff leave	6,000	-	-	-	6,000
Other provision	29,946	-	(2,976)	-	26,970
Provision for loans and advances	612,445	-	256,143	-	868,588
FVTOCI	(149,927)	-	-	(661,244)	(811,171)
	330,721	-	276,878	(661,244)	53,645

The deferred tax liability is mainly due to accelerated capital allowances and the tax effect of the revaluation surplus on leasehold land and buildings valued in the year as detailed in notes 14 and 15.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle on a tax basis. The following is the analysis of the deferred tax balances for financial reporting purposes.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

18. DEFERRED TAX (Continued)

	GROUP AND BANK	
	2022 Kshs'000	**2021 Kshs'000**
Deferred tax liabilities	(68,767)	(119,711)
Deferred tax assets	1,141,468	-
	1,072,701	(119,711)

19. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs '000**	**2021 KShs '000**
Due to banks and financial institutions	3,001	22,070	3,001	22,070

20. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2022 KShs'000	**2021 KShs'000**	**2022 KShs '000**	**2021 KShs '000**
Current deposits	24,579,102	22,673,034	24,976,073	23,029,754
Savings deposits	862,378	815,676	862,378	815,676
Call deposits	557,282	962,666	557,282	962,666
Fixed deposits	81,187,951	72,413,080	81,187,951	72,413,080
	107,186,713	96,864,456	107,583,684	97,221,176

Included in deposits from customers, were deposits of Kshs. 1,190 million (2021: Kshs. 478 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2022 was 5.9 % (2021 : 5.5%).

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

21. LEASE LIABILITIES

	GROUP AND BANK	
	2022 Kshs'000	2021 Kshs'000
Non-current	215,175	176,074
Current	99,492	91,475
	314,667	267,549

	GROUP AND BANK	
	2022 Kshs'000	2021 Kshs'000
Maturity Analysis		
Year 1	113,355	91,475
Year 2	102,696	78,390
Year 3	64,058	62,884
Year 4	44,399	19,581
Year 5	19,325	9,816
Onwards	-	5,403
Future interest payments	(29,166)	-
	314,667	267,549

	GROUP AND BANK	
	2022 Kshs'000	2021 Kshs'000
The movement in lease liability is as follows:		
As at 1 January	267,549	317,970
Additions	154,842	51,540
Interest on lease liability	20,308	15,829
Lease liability – principal portion	(107,724)	(101,961)
Lease liability – interest portion	(20,308)	(15,829)
At 31 December 2022	314,667	267,549

As discussed in note 16, the Bank leases branch premises for its use.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

22. OTHER LIABILITIES

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
Pay orders issued	21,895	32,781	21,895	32,781
Bills payable	412,926	359,069	412,927	359,070
Sundry creditors and accruals	1,693,722	1,402,115	358,188	227,723
IFRS 9 provisions on financial guarantees and loan commitments	310,322	187,172	310,322	187,172
	2,438,865	1,981,137	1,103,332	806,746

Pay orders issued, bills payable and sundry creditors and accruals are payable on demand and are non-interest bearing.

23. INCOME TAX

(a) Corporate tax (recoverable)/payable

GROUP

	GROUP	
	2022 KShs'000	2021 KShs'000
Balance brought forward	(87,396)	(19,593)
Charge for the year	241,110	203,437
Paid during the year	(218,763)	(277,223)
Prior year under provision	-	5,983
Tax Recoverable	(65,049)	(87,396)

BANK

	2022 KShs'000	2021 KShs'000
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	(21,406)	12,838
Charge for the year	172,399	152,970
Paid during the year	(163,748)	(193,197)
Prior year provision	-	5,983
Tax Recoverable	(12,755)	(21,406)

(b) Income tax expense

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
Current tax	241,110	203,437	172,399	152,970
Deferred tax credit (note 18)	(190,046)	(277,739)	(190,503)	(276,878)
Prior year under Provision	-	5,983	-	5,983
Tax charge/ (credit) for the year	51,064	(68,319)	(18,104)	(117,925)

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

23. INCOME TAX (continued)

(c) Reconciliation of tax expense to tax based on accounting profit:

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
Accounting profit before tax	3,802,172	3,197,768	3,523,041	2,902,846
Tax at applicable rate of 30% (2021– 30%)	1,140,650	959,330	1,056,912	870,854
Other expenses not deductible for tax purposes	621,141	464,694	612,194	463,296
Other income not subject to tax	(1,710,725)	(1,498,326)	(1,687,210)	(1,458,058)
Prior year under Provision	-	5,983	-	5,983
Tax charge / (credit) for the year	51,064	(68,319)	(18,104)	(117,925)

24. SHARE CAPITAL

	GROUP & BANK	
	2022 Ordinary shares of Kshs. 1,000 each	2021 Ordinary shares of Kshs. 1,000 each
Authorised:		
Ordinary shares of Kshs. 1,000 each	8,000,000	8,000,000
Issued and fully paid: at 1 January and 31 December	6,649,390	6,649,390
	6,649,390	6,649,390

25. SHARE PREMIUM

	GROUP & BANK	
	2022 Ordinary shares of Kshs. 1,000 each	2021 Ordinary shares of Kshs. 1,000 each
Share premium: 500,000 shares of Kshs. 3,334 each	1,667,000	1,667,000
Share premium: 1,149,390 shares of Kshs. 3,100 each	3,563,109	3,563,109
	5,230,109	5,230,109

26 (a). OTHER RESERVES

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
Retained earnings	15,551,771	14,468,904	14,388,693	13,440,805
FVTOCI reserve	2,997,990	1,895,665	3,041,224	1,895,705
Asset revaluation reserve	644,948	558,564	624,152	542,006
Statutory Loan reserves	353,022	353,022	353,022	353,022
	19,547,731	17,276,155	18,407,091	16,231,538

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

26 (a). OTHER RESERVES (continued)

The fair value through other comprehensive income reserve comprises changes in fair value of fair value through other comprehensive income investments.

The asset revaluation reserve is not distributable and is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates an increase in the fair value of the same assets previously recognized in equity.

The statutory loan reserves are excess CBK provisions against IFRS 9.

26 (b). OTHER RESERVES (GROUP)

Included in the reserves are below items.

(i) Increase in profit for subsidiary – This is the difference in profit for Prime Bank Bancassurance Intermediary Limited consolidated in 2021 and the amount as per the audited financial statements.

27. INTEREST INCOME (GROUP AND BANK)

	2022 Kshs. '000	2021 Kshs. '000
Loans and advances to customers	4,177,259	3,797,385
Placements and bank balances	376,258	219,283
Treasury bills and term notes	1,408,087	1,680,570
Government securities at amortised cost	4,104,546	3,657,329
FVTOCI investments	1,732,291	1,293,141
	11,798,441	10,647,708

Interest on bills and bonds have been recognised using effective interest rate. The interest on loans and placements are recognised using the effective interest rate method.

28. INTEREST EXPENSE (GROUP AND BANK)

	2022 Kshs. '000	2021 Kshs. '000
Due to customers	5,900,347	5,049,452
Due to Banks and other Financial Institutions	798	51,663
Interest on lease	20,308	15,829
	5,921,453	5,116,944

29.FEES AND COMMISSION INCOME (GROUP AND BANK)

	2022 Kshs. '000	2021 Kshs. '000
Commission income	324,148	350,111
Fees income	146,745	151,785
	470,893	501,896

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

30. OTHER INCOME

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Insurance business income	1,459,039	1,248,494	-	-
Miscellaneous income	89,752	114,508	68,649	89,084
Recoveries of loans and advances previously written off	6,518	150	6,518	150
	1,555,309	1,363,152	75,167	89,234

31. ALLOWANCES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Allowance on loans and advances to customers	470,502	907,852	470,189	905,966
Allowance on loan commitments	105,442	(31,795)	105,442	(31,795)
Allowance on financial guarantees	17,708	(23,583)	17,708	(23,583)
Allowance on term notes and bonds	4,377	3,701	4,377	3,701
Allowance on government securities	39,384	203	39,105	(474)
Write-off during the year	1,589	2,252	1,589	2,252
Allowances on other assets	(595)	(1,068)	-	-
	638,407	857,562	638,410	856,067

32. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Staff costs (note 35)	1,820,635	1,691,220	1,614,724	1,518,327
Depreciation on property and equipment	180,859	189,599	169,418	178,870
Depreciation on right of use asset(note 16)	102,896	99,023	102,896	99,023
Amortisation of intangible assets(note 17)	58,179	62,040	51,580	56,378
Amortisation of leasehold land(note 14)	11,977	11,977	10,710	10,710
Auditors' remuneration	18,120	12,646	14,988	10,146
Directors' emoluments	155,530	144,782	148,294	135,862
Deposit protection fund levy	147,246	135,003	147,246	135,003
Rent and rates	51,076	50,996	51,033	50,952
Other general administration expenses*	1,583,127	1,340,644	777,560	647,490
	4,129,645	3,737,930	3,088,449	2,842,761

*Other general administration expenses include repairs and maintenance (Ksh. 210 million), subscriptions (Ksh. 89 million), security (Ksh. 63 million), Stationery (Ksh. 52 million), Insurance expenses (Ksh 41 million) among others.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

33. PROFIT BEFORE TAX

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Profit before tax is stated after charging/(crediting): -				
Depreciation on property and equipment (note 15)	188,726	189,599	169,418	178,870
Depreciation on right of use assets (note 16)	102,896	99,023	102,896	99,023
Amortisation of intangible assets (note 17)	58,180	62,040	51,580	56,378
Amortisation of leasehold land (note 14)	11,977	11,977	10,710	10,710
Directors' emoluments	155,530	144,782	148,294	135,862
Auditors' remuneration	18,120	12,646	14,988	10,146
And after crediting: -				
Foreign exchange gains	504,265	323,056	504,265	323,056
Dividend income	162,769	74,393	322,589	156,724
(Loss)/Gain on sale of property and equipment	(4,141)	(4,190)	(4,141)	(4,190)

34. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There are no such dilutive shares.

The following reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Profit for the year attributable to equity holders of the parent (Kshs. '000)	3,681,760	3,206,041	3,541,145	3,020,771
Weighted average number of shares (Thousands)	6,649	6,649	6,649	6,649
Basic and diluted earnings per share (Kshs.)	554	482	533	454

35. STAFF COSTS

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Salaries and wages	1,595,433	1,442,292	1,414,946	1,287,687
Contributions to pension scheme	88,355	80,336	80,002	73,369
Other staff costs	136,847	168,592	119,776	157,271
	1,820,635	1,691,220	1,614,724	1,518,327

Notes to the Consolidated Financial Statements (continued)

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36. DIVIDENDS PAID (GROUP AND BANK)

	2022 Kshs. '000	2021 Kshs. '000
Interim dividend declared and paid on ordinary shares	498,704	538,601
Interim dividend per Ordinary share	75	81
Proposed Final dividend (2021 paid)	1,097,149	997,409
Proposed Final dividend per ordinary share	165	150

Dividend per share is calculated based on the amount of the dividends and on the number of shares in issue at the reporting date.

37. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Cash in hand (note 5)	597,367	458,978	598,971	461,053
Balances with Central Bank of Kenya-unrestricted (note 5)	2,137,962	2,639,886	2,137,962	2,639,886
Cheques and items for clearing (note 5)	645,828	370,344	645,828	370,344
Placements and balances with other banks (note 6)	11,060,793	8,957,230	11,014,984	8,894,382
Government securities and term notes maturing within 91 days (note 7)	20,000	20,000	20,000	20,000
Due to banks and financial institutions (note 19)	(3,001)	(22,070)	(3,001)	(22,070)
	14,458,949	12,424,368	14,414,744	12,363,595

Interest received amounting to Shs. 11,798,411,000 (2021: Shs. 10,647,708,000) is included in changes in operating cash flows.

38. CONTINGENT LIABILITIES

	GROUP		BANK	
	2022 Kshs. '000	2021 Kshs. '000	2022 Kshs. '000	2021 Kshs. '000
Letters of credit	1,848,651	1,805,263	1,848,651	1,805,263
Local guarantees	4,843,471	5,573,200	4,843,471	5,573,200
Bills for collection	4,600,449	4,648,447	4,600,449	4,648,447
Foreign currency bills for collection	106,196	56,782	106,196	56,782
Custodial treasury bonds	3,992,534	3,992,534	3,992,534	3,992,534
Spot sales/purchase	395,751	762,960	395,751	762,960
Swap sales/purchases	4,526,609	7,664,093	4,526,609	7,664,093
Forward contracts	1,024,691	1,273,637	1,024,691	1,273,637
Money Mkt Borrow/lend	1,305,693	1,197,696	1,305,693	1,197,696
Non CTS cheques	598	2,266	598	2,266
Govt. securities under lien	442,899	22,500	442,899	22,500
	23,087,542	26,999,378	23,087,542	26,999,378

The contingent liabilities represent transactions entered into in the normal course of business and are represented by counter indemnities or cash securities from customers for the same amount. Letters of credit, guarantee and acceptance commit the Bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

38. CONTINGENT LIABILITIES (Continued)

The Bank is also a defendant in various legal suits; after taking appropriate legal advice, the directors concluded that the outcome of such legal suits are unlikely to result in any significant loss.

39. CAPITAL COMMITMENTS

	2022 KShs'000	2021 KShs'000
Capital commitments contracted for	1,243,000	1,100,000

Capital commitments relate to expected capital expenditure to be incurred in leasehold improvements, furniture and fittings and other assets.

40. RELATED PARTY TRANSACTIONS

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

	2022 KShs'000	2021 KShs'000
a) Due from:		
i) Loans and advances to employees	481,905	436,338
ii) Loans and advances to directors and their associates	3,421,909	2,000,743
At 31 December	3,903,814	2,437,081
Allowance during the year:		
At 1 January	189,519	61,788
Allowance during the year	(46,841)	74,370
At 31 December	142,678	136,158

The loans to related parties are given in the ordinary course of business. The average term of the loans to related parties is 3 years. The loans are secured by titles to property and directors' guarantees.

	2022 KShs'000	2021 KShs'000
b) Due to:		
i) Deposits from employees	1,136,045	985,063
ii) Deposits from directors and their associates	1,743,973	1,510,847
	2,880,018	2,495,910
c) Key management personnel compensation		
Salaries	657,730	580,840
Post-employment benefits	23,433	27,707
	681,163	608,547

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

40. RELATED PARTY TRANSACTIONS (Continued)

d) Directors' emoluments

	GROUP		BANK	
	2022 KShs'000	2021 KShs'000	2022 KShs '000	2021 KShs '000
As management	110,490	99,361	107,874	95,061
As executives	45,040	136,481	40,420	131,861
	155,530	235,842	148,294	226,922

e) Transactions with related parties

Included in interest income is Kshs. 364,954,223 (2021: Kshs. 233, 827,274) being interest on loans and advances to related parties. Included in interest expense is Kshs. 39,543,329 (2021: Kshs. 31,366,981) being interest on deposits from related parties.

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 December 2022

GROUP	Within 12 months KShs'000	After 12 months KShs'000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,562,838	-	6,562,838
Placements and balances with other banks	11,060,793	-	11,060,793
Treasury bills and term notes	10,906,948	101,140	11,008,088
Investment securities measured at amortized cost	9,677,415	25,480,393	35,157,808
Investment in bonds-fair value through other comprehensive income	7,631,289	19,618,801	27,250,090
Investment in ordinary shares fair value through other comprehensive income	-	4,653,115	4,653,115
Investment in ordinary shares fair value through profit and loss	-	83,696	83,696
Loans and advances to customers	19,737,576	21,212,784	40,950,360
Other assets	563,113	1,076,053	1,639,166
Intangible assets	-	766,623	766,623
Right of use - leasehold land	-	653,699	653,699
Property and equipment	-	1,697,126	1,697,126
Right of use	-	285,606	285,606
Tax recoverable	-	65,049	65,049
Deferred Tax	-	1,141,466	1,141,466
TOTAL ASSETS	66,139,972	76,835,551	142,975,523
LIABILITIES			
Balances due to banks and financial institutions	3,001	-	3,001
Deposits from customers	105,984,638	1,202,075	107,186,713
Other liabilities	2,438,865	-	2,438,865
Lease liability	99,492	215,175	314,667
Deferred tax liability	-	68,767	68,767
TOTAL LIABILITIES	108,525,996	1,486,017	110,012,013
NET ASSETS	(42,386,024)	75,349,534	32,963,510

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

As at 31 December 2021

GROUP	Within 12 months KShs'000	After 12 months KShs'000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,330,041	-	6,330,041
Placements and balances with other banks	8,957,230	-	8,957,230
Treasury bills and term notes	20,398,226	101,140	20,499,366
Investment securities measured at amortized cost	3,411,536	30,529,511	33,941,047
Investment in bonds-fair value through other comprehensive income	51,328	12,606,062	12,657,390
Investment in ordinary shares fair value through other comprehensive income	-	3,973,133	3,973,133
Investment in ordinary shares fair value through profit and loss	-	99,497	99,497
Loans and advances to customers	19,219,325	18,755,161	37,974,486
Other assets	450,307	730,383	1,180,690
Intangible assets	-	796,197	796,197
Right of use - leasehold land	-	658,373	658,373
Property and equipment	-	1,434,634	1,434,634
Right of use	-	238,359	238,359
Tax recoverable	87,396	-	87,396
TOTAL ASSETS	58,905,389	69,922,450	128,827,839
LIABILITIES			
Balances due to banks and financial institutions	22,070	-	22,070
Deposits from customers	96,864,456	-	96,864,456
Other liabilities	1,981,137	-	1,981,137
Lease liability	91,475	176,074	267,549
Deferred tax liability	-	119,711	119,711
TOTAL LIABILITIES	98,959,138	295,785	99,254,923
NET ASSETS	(40,053,749)	69,626,665	29,572,916

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled

As at 31 December 2022

BANK	Within 12 months KShs'000	After 12 months KShs'000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,564,442	-	6,564,442
Placements and balances with other banks	11,014,984	-	11,014,984
Treasury bills and term notes	10,906,948	101,140	11,008,088
Investment in securities measured at amortized cost	9,657,707	24,109,051	33,766,758
Investment in bonds- measured at FVTOCI	7,631,289	18,888,432	26,519,721
Investment in ordinary shares measured at FVTOCI	-	4,564,249	4,564,249
Loans and advances to customers	19,737,576	21,186,067	40,923,643
Other assets	563,113	491,271	1,054,384
Investment in Subsidiary	-	1,405,692	1,405,692
Intangible assets	-	107,504	107,504
Right of use - leasehold land	-	565,000	565,000
Property and equipment	-	1,454,129	1,454,129
Right of use assets	-	285,606	285,606
Tax Receivable	-	12,755	12,755
Deferred Tax	-	1,141,468	1,141,468
TOTAL ASSETS	66,076,059	74,312,364	140,388,423
LIABILITIES			
Balances due to banks and financial institutions	3,001	-	3,001
Deposits from customers	106,381,609	1,202,075	107,583,684
Other liabilities	1,103,332	-	1,103,332
Lease liabilities	99,492	215,175	314,667
Deferred Tax Liability	-	-	-
TOTAL LIABILITIES	107,587,434	1,417,250	109,004,684
NET ASSETS	(41,511,375)	72,895,114	31,383,739

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

As at 31 December 2021

BANK	Within 12 months KShs'000	After 12 months KShs'000	Total KShs '000
ASSETS			
Cash and balances with the Central Bank of Kenya	6,332,115	-	6,332,115
Placements and balances with other banks	8,894,382	-	8,894,382
Treasury bills and term notes	20,398,226	101,140	20,499,366
Investment in securities measured at amortized cost	3,375,549	29,604,047	32,979,596
Investment in bonds- measured at FVTOCI	51,328	11,714,265	11,765,593
Investment in ordinary shares measured at FVTOCI	-	3,868,946	3,868,946
Loans and advances to customers	19,219,325	18,698,235	37,917,560
Other assets	450,307	208,125	658,432
Investment in Subsidiary	-	1,405,692	1,405,692
Intangible assets	-	137,390	137,390
Right of use - leasehold land	-	568,407	568,407
Property and equipment	-	1,194,979	1,194,979
Right of use assets	-	238,359	238,359
Tax Receivable	-	21,406	21,406
TOTAL ASSETS	58,721,232	67,760,991	126,482,223
LIABILITIES			
Balances due to banks and financial institutions	22,070	-	22,070
Deposits from customers	97,221,176	-	97,221,176
Other liabilities	806,746	-	806,746
Lease liabilities	91,475	176,074	267,549
Deferred Tax Liability	-	53,645	53,645
TOTAL LIABILITIES	98,141,476	229,719	98,371,186
NET ASSETS	(39,420,235)	67,531,271	28,111,037

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

42. FAIR VALUE MEASUREMENT

a) Comparison of the carrying amounts and fair values of the financial instruments

	GROUP				BANK			
	2022		2021		2022		2021	
	Carrying amount Kshs. '000	Fair value Kshs. '000	Carrying amount Kshs. '000	Fair value Kshs. '000	Carrying amount Kshs. '000	Fair value Kshs. '000	Carrying amount Kshs. '000	Fair value Kshs. '000
Investment in security measured at amortised cost	33,832,259	35,157,808	32,918,932	33,941,047	32,660,784	33,766,758	32,018,932	32,979,596
Treasury bills	11,300,000	10,886,948	21,050,000	20,378,226	11,300,000	10,886,948	21,050,000	20,380,064
Term notes	101,140	121,140	101,140	121,140	101,140	121,140	101,140	121,140
Bonds-at FVTOCI	27,798,909	27,250,090	12,868,858	12,657,390	27,030,349	26,519,721	11,960,703	11,765,593
Ordinary shares- at FVTOCI	3,095,948	4,653,115	1,840,587	3,973,133	3,947,915	4,564,249	1,746,725	3,868,946
Investment in ordinary shares-at fair value through profit or loss	99,497	83,696	92,456	99,497	-	-	-	-

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

42. FAIR VALUE MEASUREMENT (continued)

b) Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:

Included in level 1 category are financial assets that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The assets are traded in an active market and quoted prices are available.

Level 2:

Included in level 2 category are financial assets measured using inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e., as prices) or indirectly (i.e., derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorized as level 2.

Level 3:

Financial assets measured using inputs that are not based on observable market data are categorised as level 3. Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Bank. Therefore, unobservable inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the Bank's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

GROUP		**Level 1**	**Level 2**	**Level 3**	**Total**
2022	**Note**	**Kshs. '000**	**Kshs. '000**	**Kshs. '000**	**Kshs. '000**
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	27,250,090	-	-	27,250,090
Investments in ordinary shares at FVTOCI	10(b)	83,696	-	-	83,696
Investments in ordinary shares at fair value through profit or loss	10(a)	3,696,960	-	956,155	4,653,115
Property and equipment (Freehold land and buildings)	15	-	-	1,427,985	1,427,985
Right of use - leasehold land	14	-	-	653,699	653,699
		31,030,746	-	3,037,839	34,068,585

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

42. FAIR VALUE MEASUREMENT (continued)

b) Determination of fair value and fair value hierarchy (Continued)

GROUP (continued) 2021	Note	Level 1 Kshs. '000	Level 2 Kshs. '000	Level 3 Kshs. '000	Total Kshs. '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	12,657,390	-	-	12,657,390
Investments in ordinary shares at FVTOCI	10(a)	3,095,947	-	877,186	3,973,133
Investments in ordinary shares at fair value through profit or loss	10(b)	99,497	-	-	99,497
Investments securities at amortised cost	8	33,941,047	-	-	33,941,047
Property and equipment (Freehold land and buildings)	15	-	1,086,477	-	1,086,477
Right of use - leasehold land	14	-	-	658,373	658,373
		49,793,881	1,086,477	1,535,559	52,415,917

BANK 2022	Note	Level 1 Kshs. '000	Level 2 Kshs. '000	Level 3 Kshs. '000	Total Kshs. '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	26,519,721	-	-	26,519,721
Investments in ordinary shares at FVTOCI	10(a)	3,608,094	-	956,155	4,564,249
Investment securities measured at amortised cost	8	33,766,758	-	-	33,766,758
Property and equipment (Freehold land and buildings)	15	-	1,209,134	-	1,209,134
Right of use - leasehold land	14	-	-	565,000	565,000
		63,894,573	1,209,134	1,521,155	66,624,862

2021	Note	Level 1 Kshs. '000	Level 2 Kshs. '000	Level 3 Kshs. '000	Total Kshs. '000
Financial investments at FVTOCI:					
Investment in bonds at FVTOCI	9	11,765,593	-	-	11,765,593
Investments in ordinary shares at FVTOCI	10(a)	2,991,760	-	877,186	3,868,946
Investment securities measured at amortised cost	8	32,979,596	-	-	32,979,596
Property and equipment (Freehold land and buildings)	15	-	-	870,476	870,476
Right of use - leasehold land	14	-	-	568,407	568,407
		47,736,949	-	2,316,069	50,053,018

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

42. FAIR VALUE MEASUREMENT (continued)

b) Determination of fair value and fair value hierarchy (Continued)

Description of valuation techniques used and key inputs to valuation on land and buildings:

	Valuation technique	Significant unobservable inputs	Range (Weighted Average)
Free hold land, leasehold land,and buildings	Open market valuation	Estimated rental value per s.q.m. per month	Kshs. 180 –ground floor space
			Kshs. 120 –upper floor space
		Rent growth p.a.	8%
		Discount rate	8%

There were no transfers between levels 1, 2 and 3 in the year.
Reconciliation of fair value measurement of the land and buildings

	2022 Kshs.'000	2021 Kshs.'000
Leasehold land		
As at 1 January	613,344	613,344
Additions	-	-
Total gains and losses recognised in other comprehensive income	(48,344)	-
Accumulated depreciation	(44,937)	(44,937)
Charge for the year	(10,710)	-
Total gains and losses recognised in other comprehensive income	55,647	-
As at 31 December	565,000	568,407
Freehold land		
As at 1 January	49,000	49,000
Total gains and losses recognised in other comprehensive income	(10,500)	-
As at 31 December	38,500	49,000
Buildings		
As at 1 January	914,544	914 544
Additions	255,000	-
Total gains and losses recognised in other comprehensive income	1,090	-
	1,170,634	914 544
Accumulated depreciation	(93,068)	(93,068)
Charge for the year	(26,343)	-
Total gains and losses recognised in other comprehensive income	119,411	-
As at 31 December	1,170,634	821,476

Significant increases/ (decreases) in estimated rental value per square metre in isolation would result in a significantly higher/ (lower) fair value on a linear basis.

Notes to the Consolidated Financial Statements (continued)

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43. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole. It has set among other measures, the rules and ratios to monitor adequacy of a bank's capital.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealised gains on equity instruments classified as fair value through other comprehensive income.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized in addition to recognising the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position.

The Bank has complied with capital requirements.

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

	2022		2021	
	Actual Kshs. '000	Required Kshs. '000	Actual Kshs. '000	Required Kshs. '000
Tier 1 Capital	26,316,762	1,000,000	24,285,501	1,000,000
Tier 2 Capital	-	-	-	-
Term subordinated debt	-	-	-	-
Statutory Loan Loss Reserve	353,022	-	353,022	-
Total regulatory capital	26,669,784	1,000,000	24,638,523	1,000,000
Risk weighted assets	71,925,229	-	59,273,889	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	37%	14.50%	41%	14.50%
Total tier 1 capital expressed as a percentage of risk weighted assets	37%	10.50%	42%	10.50%

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT

Risk management framework

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risks. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

The Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Board on their activities.

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

a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Management of credit risk

The Board has delegated the responsibility for the management of credit risk to the Credit Committee chaired by a Non-Executive Director. The Credit Department, headed by the Assistant General Manager, oversees the operation under the guidance of top management responsible for overseeing of the Bank's credit risk including:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.

2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Credit Committee or the Board as appropriate.

3. Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process.

4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any sector.

5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit Committee/ Board in respect of large borrowers.

6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

7. Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

8. Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.

9. Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Regular audits of Credit Department processes are undertaken by Internal Audit Department.

Impairment

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

Loans and advances to customers.

Debt investment securities.

Loan commitments issued; and

Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Impairment (Continued)

12-month ECL, i.e., lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or full lifetime ECL, i.e., lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor, or any other party. The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

i. Significant financial difficulty of the borrower or issuer.

ii. A breach of contract such as a default or past due event.

iii. The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.

iv. The disappearance of an active market for a security because of financial difficulties; or

v. 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-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or Fair Value through Other Comprehensive Income are credit-impaired at each reporting date. A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Definition of default (Continued)

The Bank considers the following as constituting an event of default:

i. The borrower is past due more than 90 days on any material credit obligation to the Bank: or

ii. The borrower is unlikely to pay its credit obligations to the Bank in full.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. Also, additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour.
The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime

- PD by comparing:
- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e., the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Modification and derecognition of financial assets and financial liabilities

Modification of financial assets

With the implementation of IFRS 9 there are new disclosure requirements for modifications. The assessment of whether a modification to a financial asset results in derecognition or not, is relevant as it impacts the assessment of the initial credit risk of a financial asset against which any subsequent significant deterioration in credit risk would be assessed. The Group assesses modifications to financial assets in the following manner:

A loan modification is a permanent change to one or more of the terms of the loan. Enforcing or adopting terms that were present in the original terms of the facility is not a modification. The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depend on whether the modification is done for commercial reasons or because of financial difficulty of the borrower.

Contractual modifications on commercial terms are treated as a new transaction resulting in derecognition of the original financial asset and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in profit or loss.

When the Group modifies the contractual conditions due to financial difficulties of the borrower, the asset is not derecognized unless the terms of the contract are substantively changed (such as the inclusion of an equity participation or a substantial change in counterparty). If the asset is not substantially modified, then the gross carrying amount of the financial asset is recalculated to be the present value of the modified cash flows discounted at the original EIR and any gain or loss is recognised in profit or loss as part of the total impairment loss.

Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognized. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition of a financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impaired financial asset that was subject to a write-off, the group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Modification and derecognition of financial assets (Continued)

a. The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
b. The remaining lifetime PD at the reporting date based on the modified terms.

Financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the Financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write – off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Critical judgements and key sources of estimation uncertainty

In the application of the Bank's policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of loans and Advances that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Bank's Lending policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's lending policies and that have the most significant effect on the amounts recognised in financial statements:

Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.
Refer to note 1 and note 3 for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar

Credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Determination of life of revolving credit facilities: The Bank measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a)Credit risk (Continued)

Internal credit risk ratings (Continued)

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Bank's exposures:

Payment record, including payment ratios and ageing analysis;

- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.
- or retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, changes in the financial sector the customer operates etc.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Group Rating Description

1. Low to fair risk
2. Watch list
3. Substandard
4. Doubtful
5. Impaired

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as Public debt to GDP, Saving Interest rates, lending Interest rates and House pricing index. The Bank generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. Loan commitments are assessed along with the category of loan the Bank is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Bank performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Bank has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Notes to the Consolidated Financial Statements (continued)
AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)
a) Credit risk (Continued)
Incorporation of forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Bank uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely.

Key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period. In addition to the base case scenario the Bank uses Upside and Adverse scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the Upside and adverse scenarios depend on the probability of the scenario.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2020 that has a material impact in ECLs.

MACRO-ECONOMIC VARIABLE	2022		
	Base	Upside	Adverse
		Weighing	
	40%	20%	40%
Nominal GDP per capita, USD	4.36%	4.29%	4.43%
Exports of goods and services, % of GDP	11.91%	12.23%	11.60%
Long-term external debt stock, % of exports of G&S	5.12%	5.01%	5.23%
Consumer price index inflation, 2010=100, ave	4.83%	4.75%	4.91%
Lending rate, %, ave	12.14%	11.94%	12.34%

Measurement of ECL
The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data, as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis.

	31 - Dec- 22 KShs'000	01 - Jan- 22 KShs'000
Loans and advances to customers at amortized cost		
Concentration by sector		
Agriculture	229,381	201,095
Building & Construction	1,014,716	1,230,832
Energy & Water	559,199	390,896
Financial Services	103,321	59,081
Manufacturing	13,154,550	11,872,948
Mining & Quarrying	73,294	66,735
Personal/Household	2,874,767	2,622,642
Real Estate	5,109,838	4,941,523
Tourism, Restaurant & Hotels	1,178,012	1,184,319
Trade	16,910,237	15,307,443
Transport & Communication	2,137,830	2,506,650
TOTAL	43,345,145	40,384,164

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Incorporation of forward-looking information (Continued)

	31-Dec-22 KShs '000	01-Jan-22 Kshs'000
Loan commitments		
Concentration by sector		
Agriculture	30,935	82,359
Building & Construction	66,355	60,894
Energy & Water	54,793	117,269
Financial Services	8,420	2,795
Manufacturing	2,718,015	1,459,577
Mining & Quarrying	4,787	-
Personal/Household	692,010	552,106
Real Estate	1,355,368	124,981
Tourism, Restaurant & Hotels	63,896	71,530
Trade	3,641,659	2,104,281
Transport & Communication	239,375	95,995
TOTAL	8,875,613	4,671,787

	31-Dec-22 KShs '000	01-Jan-22 Kshs'000
Financial guarantee contracts		
Concentration by sector		
Agriculture	8,734	7,287
Building & Construction	1,245,564	644,015
Energy & Water	60,400	36,900
Financial Services	31,705	33,728
Manufacturing	5,087,452	3,331,547
Mining & Quarrying	12,860	6,507
Personal/Household	24,135	841,294
Real Estate	83,446	130,964
Tourism, Restaurant & Hotels	11,579	9,735
Trade	3,888,678	4,478,304
Transport & Communication	325,796	297,566
TOTAL	10,780,349	9,817,847

An analysis of the Bank's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a)Credit risk (Continued)

Incorporation of forward-looking information (Continued)

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry.

	31-Dec-22	31 Dec- 22	01-Jan-22	01 Jan-22
Loans and advances to customers at amortised cost Concentration by sector	**Gross Carrying Amount Kshs. '000**	**Loss Allowance Kshs. '000**	**Gross Carrying Amount Kshs. '000**	**Loss Allowance Kshs. '000**
Agriculture	229,381	21	201,095	19
Building & Construction	1,014,716	271,756	1,230,832	305,749
Energy & Water	559,198	193	390,896	113
Financial Services	103,321	724	59,081	5,423
Manufacturing	13,154,550	221,765	11,872,948	261,462
Mining & Quarrying	73,295	18	66,735	20
Personal/Household	2,874,767	201,756	2,622,642	180,240
Real Estate	5,109,838	153,075	4,941,523	376,683
Tourism, Restaurant & Hotels	1,178,012	257,895	1,184,319	344,006
Trade	16,910,237	827,276	15,307,443	506,982
Transport & Communication	2,137,830	487,023	2,506,650	485,906
TOTAL	43,345,145	2,421,502	40,384,164	2,466,603

	31-Dec-22	31 Dec- 22	01-Jan-22	01 Jan-22
Loan commitments Concentration by sector	**Gross Carrying Amount Kshs. '000**	**Loss Allowance Kshs. '000**	**Gross Carrying Amount Kshs. '000**	**Loss Allowance Kshs. '000**
Agriculture	30,935	2	82,359	6
Building & Construction	66,355	723	60,894	180
Energy & Water	54,793	7	117,269	21
Financial Services	8,420	145	2,795	226
Manufacturing	2,718,015	65,823	1,459,577	13,831
Mining & Quarrying	4,787	-	-	-
Personal/Household	692,010	12,162	552,106	4,910
Real Estate	1,355,368	37,091	124,981	6,837
Tourism, Restaurant & Hotels	63,896	10,786	71,530	18,561
Trade	3,641,659	31,143	2,104,281	12,556
Transport & Communication	239,375	11,587	95,995	6,896
TOTAL	8,875,613	169,469	4,671,787	64,026

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a)Credit risk (Continued)

Incorporation of forward-looking information (Continued)

An Analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry (continued)

Financial guarantee contracts Concentration by sector	31-Dec-22 Gross Carrying Amount KShs '000	31-Dec-22 Loss Allowance KShs '000	01-Jan-22 Gross Carrying Amount KShs '000	01-Jan-22 Loss Allowance KShs '000
Agriculture	8,734	5	7,287	4
Building & Construction	1,245,564	42,779	644,015	923
Energy & Water	60,400	56	36,900	29
Financial Services	31,705	1,879	33,728	2,820
Manufacturing	5,087,452	30,235	3,331,547	38,840
Mining & Quarrying	12,860	12	6,507	6
Personal/Household	24,135	433	841,294	9,225
Real Estate	83,446	2,280	130,964	7,352
Tourism, Restaurant & Hotels	11,579	1,904	9,735	2,525
Trade	3,888,678	41,588	4,478,304	37,890
Transport & Communication	325,796	19,683	297,566	23,529
TOTAL	10,780,349	140,854	9,817,847	123,146

Impairment allowance reconciliations

	31 - Dec - 2022					01-Jan-2022
Loans and advances to customers at amortised cost	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	Total KShs '000
Grades 1: Low to fair risk	36,320,852	-	-	-	36,320,852	33,030,519
Grades 2: Watch	-	2,039,203	-	-	2,039,203	3,027,945
Grades 3: Substandard	-	-	1,229,692	-	1,229,692	277,740
Grade 4: Doubtful	-	-	2,911,587	-	2,911,587	3,663,608
Grade 5: Impaired	-	-	843,811	-	843,811	384,352
Total gross carrying amount	36,320,852	2,039,203	4,985,090	-	43,345,145	40,384,164
Loss allowance	525,232	198,483	1,697,788	-	2,421,502	2,466,604
Carrying amount	35,795,620	1,840,721	3,287,302	-	40,923,643	37,917,560

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Impairment allowance reconciliations (continued)

Loan commitments	31 - December - 2022					01 - Jan - 22
	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	Total KShs '000
Grades 1: Low to fair risk	8,729,211	-	-	-	8,729,211	4,671,787
Grades 2: Watch	-	878	-	-	878	-
Grades 3: Substandard	-	-	145,524	-	145,524	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total Gross carrying amount	8,729,211	878	145,524	-	8,875,613	4,671,787
Loss allowance	114,170	104	55,195	-	169,468	64,116
Carrying amount	8,615,041	774	90,329	-	8,706,145	4,607,671

Financial guarantee contracts	31 - December - 2022					01 - Jan - 22
	Stage 1 12-month ECL KShs '000	Stage 2 Lifetime ECL KShs '000	Stage 3 Lifetime ECL KShs '000	POCI KShs '000	Total KShs '000	Total KShs '000
Grades 1: Low to fair risk	10,767,026	-	-	-	10,767,026	9,817,847
Grades 2: Watch	-	13,323	-	-	13,323	-
Grades 3: Substandard	-	-	-	-	-	-
Grade 4: Doubtful	-	-	-	-	-	-
Grade 5: Impaired	-	-	-	-	-	-
Total gross carrying amount	10,767,026	13,323	-	-	10,780,349	9,817,847
Loss allowance	138,864	1,990	-	-	140,854	123,146
Carrying amount	10,628,162	11,333	-	-	10,639,495	9,694,701

This table summarizes the loss allowance as of the year-end by class of exposure/asset.

Loss allowance by classes	31 - Dec- 22	01 - Jan- 22
Loans and advances to customers at amortized cost	2,421,502	2,466,604
Loan commitments	169,469	64,116
Financial guarantee contracts	140,854	123,146
Total	2,731,825	2,653,866

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Impairment allowance reconciliations (continued)

Loss allowance – Loans and advances to Customers at amortized cost	Stage 1 12-month ECL Kshs. '000	Stage 2 Lifetime ECL Kshs. '000	Stage 3 Lifetime ECL Kshs. '000	POCI Kshs. '000	Total Kshs. '000
Loss allowance as at 1 January 2022	812,527	241,891	1,412,185	-	2,466,603
Changes in the loss allowance					
– Transfer to stage 1	54,116	(40,911)	(13,205)	-	-
– Transfer to stage 2	(17,750)	19,215	(1,465)	-	-
– Transfer to stage 3	(40,888)	(53,855)	94,743	-	-
– Increases due to change in credit risk	36,356	118,872	407,447		562,675
– Decreases due to change in credit risk	(314,435)	(16,948)	(180,378)		(511,761)
– Write-offs	-	-	(621)	-	(621)
– Changes due to modifications that did not result derecognition	-	-	-	-	-
New financial assets originated or purchased	137,193	53,155	112,730	-	303,078
Financial assets that have been settled	(141,888)	(122,936)	(133,648)	-	(398,472)
Loss allowance as at 31 December 2022	525,231	198,483	1,697,788	-	2,421,502

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Impairment allowance reconciliations (Continued)

Loss allowance – Loan Commitments	Stage 1 12-month ECL Kshs. '000	Stage 2 Lifetime ECL Kshs. '000	Stage 3 Lifetime ECL Kshs. '000	POCI Kshs. '000	Total Kshs. '000
Loss allowance as at 1 January 2022	64,026	-	-	-	64,026
Changes in the loss allowance					
– Transfer to stage 1	-	(21)	(9)	-	(30)
– Transfer to stage 2	-	21	-	-	21
– Transfer to stage 3	-	-	9	-	9
– Increases due to change in credit risk	19,531	83	44	-	19,658
– Decreases due to change in credit risk	(14,561)	-	-	-	(14,561)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	65,291	-	55,141	-	120,432
Financial assets that have been Settled derecognised	(20,087)	-	-	-	(20,087)
Loss allowance as at 31 December 2022	114,200	83	55,185	-	169,468

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL Kshs. '000	Stage 2 Lifetime ECL Kshs. '000	Stage 3 Lifetime ECL Kshs. '000	POCI Kshs. '000	Total Kshs. '000
Loss allowance as at 1 January 2022	123,146	-	-	-	123,146
Changes in the loss allowance					
– Transfer to stage 1	-	(57)	-	-	(57)
– Transfer to stage 2	-	57	-	-	57
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	5,227	609	-	-	5,836
– Decreases due to change in credit risk	(10,598)	-	-	-	(10,598)
– Write-offs	-	-	-	-	-
New financial assets originated or purchased	107,840	1,324	-	-	109,164
Financial assets that have been settled derecognised	(86,694)	-	-	-	(86,694)
Loss allowance as at 31 December 2022	138,921	1,933	-	-	140,854

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	31-Dec-22		01-Jan-22	
	Gross Carrying Amount Kshs. '000	Loss Allowance Kshs. '000	Gross Carrying Amount Kshs. '000	Loss Allowance Kshs. '000
Loans and Advances to Customers				
0-29 days	36,320,852	525,232	33,030,519	812,528
30-59 days	2,039,203	198,483	3,027,945	241,891
60-89 days	1,229,692	271,522	277,740	36,340
90-180 days	2,911,588	918,357	3,663,608	977,910
More than 181 days	843,810	507,908	384,352	397,935
	43,345,145	2,421,502	40,384,164	2,466,604
Loan Commitments				
0-29 days	8,729,211	114,170	4,671,787	64,026
30-59 days	878	105	-	-
60-89 days	145,524	55,194	-	-
90-180days	-	-	-	-
More than 181 days	-	-	-	-
	8,875,613	169,469	4,671,787	64,026
Financial guarantee contracts				
0-29 days	10,767,026	138,864	9,817,847	123,146
30-59 days	13,323	1,990	-	-
60-89 days	-	-	-	-
90-180 days	-	-	-	-
More than 181 days	-	-	-	-
	10,780,349	140,854	9,817,847	123,146

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported bank ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

	2022	2021
At 31 December	80.30%	79.50%
Average for the year	80.20%	80.30%
Maximum for the year	81.80%	81.30%
Minimum for the year	78.90%	79.40%
Central Bank of Kenya required minimum	20.00%	20.00%

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institution's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review and approval by an Assets and Liabilities Committee.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. The table below analyses maturity profiles of the undiscounted cash flows of the financial assets and liabilities of the Bank based on the remaining period using 31 December 2022 as a base period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2022	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months – 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
GROUP						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,562,838	-	-	-	-	6,562,838
Placements and balances with other banks	9,755,358	845,809	407,396	-	52,230	11,060,793
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,950,838	13,091,269	16,450,701	35,157,808
Bonds- at fair value through other comprehensive income	-	1,251,830	6,379,459	7,757,029	11,861,772	27,250,090
Loans and advances to customers	6,061,938	3,189,235	9,048,833	12,074,598	10,575,756	40,950,360
Total assets	22,380,134	9,445,726	28,199,622	33,024,036	38,940,459	131,989,977
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	3,001	-	-	3,001
Deposits from customers	38,307,429	17,352,308	50,324,901	1,202,075	-	107,186,713
Other liabilities	-	-	2,438,865	-	-	2,438,865
Total liabilities	38,307,429	17,352,308	52,766,767	1,202,075	-	109,628,579
Net liquidity gap	(15,927,295)	(7,906,582)	(24,567,145)	31,821,961	38,940,459	22,361,398

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2021	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months to 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
GROUP						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,330,041	-	-	-	-	6,330,041
Placements and balances with other banks	5,293,157	2,729,347	566,500	368,226	-	8,957,230
Treasury bills and term notes	-	-	20,398,226	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	17,464,123	13,101,375	33,941,047
Bonds- at fair value through other comprehensive income	27,204	-	24,125	8,447,908	4,158,153	12,657,390
Loans and advances to customers	8,126,950	4,418,092	6,731,208	9,806,566	8,891,670	37,974,486
Total assets	19,777,352	7,447,439	30,795,608	36,187,963	26,151,198	120,359,560
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,550,829	44,635,874	730,497	-	96,864,456
Other liabilities	-	-	1,981,137	-	-	1,981,137
Total liabilities	36,947,256	14,550,829	46,639,081	730,497	-	98,867,663
Net liquidity gap	(17,169,904)	(7,103,390)	(15,843,473)	35,457,466	26,151,198	21,491,897

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2022	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months – 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
BANK						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	6,564,442	-	-	-	-	6,564,442
Placements and balances with other banks	9,755,358	800,000	407,396	-	52,230	11,014,984
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,931,130	11,719,927	16,450,701	33,766,758
Bill & Bonds- at fair value through other comprehensive income	-	1,251,830	6,379,459	7,026,660	11,861,772	26,519,721
Loans and advances to customers	7,389,716	3,204,073	9,143,787	10,734,196	10,451,871	40,923,643
Total assets	23,709,516	9,414,755	28,274,868	29,581,923	38,816,574	129,797,636
FINANCIAL LIABILITIES	-	-	3,001	-	-	3,001
Due to banks and financial institutions	-	-	-	-	-	-
Deposits from customers	38,307,429	17,749,279	50,324,901	1,202,075	-	107,583,684
Other liabilities	-	-	1,103,332	-	-	1,103,332
Total liabilities	38,307,429	17,749,279	51,431,234	1,202,075	-	108,690,017
Net liquidity gap	(14,597,913)	(8,334,524)	(23,156,366)	28,379,848	38,816,574	21,107,619

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2021	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months – 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
BANK						
Cash and balances with Central Bank of Kenya	6,332,115	-	-	-	-	6,332,115
Placements and balances with other banks	5,293,157	2,666,500	566,500	368,225	-	8,894,382
Treasury bills and term notes	-	-	20,398,266	101,140	-	20,499,366
Investment securities measured at amortised cost	-	300,000	3,075,549	16,502,672	13,101,375	32,979,596
Bill & Bonds- at fair value through other comprehensive income	27,204	-	24,125	7,556,111	4,158,153	11,765,593
Loans and advances to customers	8,126,950	4,418,092	6,674,282	9,806,566	8,891,670	37,917,560
Total assets	19,779,426	7,384,592	30,738,772	34,334,714	26,151,198	118,388,612
FINANCIAL LIABILITIES						
Due to banks and financial institutions	-	-	22,070	-	-	22,070
Deposits from customers	36,947,256	14,907,550	44,635,874	730,497	-	97,221,176
Other liabilities	-	-	806,746	-	-	806,746
Total liabilities	36,947,256	14,907,550	45,464,690	730,497	-	98,049,992
Net liquidity gap	(17,167,830)	(7,522,958)	(14,725,918)	33,604,217	26,151,198	20,338,620

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2022	Amortized cost	Amortized cost	Fair value through other comprehensive income financial assets	At fair value through profit or loss	Financial liabilities measured at amortized cost	Carrying amount
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
BANK						
Assets						
Cash and balances with Central Bank of Kenya	-	6,562,838	-	-	-	6,562,838
Placements and balances with other banks	-	11,060,793	-	-	-	11,060,793
Treasury bills and term notes	10,886,948	121,140	-	-	-	11,008,088
Investment securities measured at amortised cost	35,157,808	-	-	-	-	35,157,808
Investment in bonds-fair value through other comprehensive income	-	-	27,250,090	-	-	27,250,090
Investment in ordinary shares- fair value through other comprehensive income	-	-	4,653,115	-	-	4,653,115
Investment in ordinary shares- at fair value through profit or loss	-		-	83,696	-	83,696
Loans and advances to customers	-	40,950,360	-	-	-	40,950,360
Total assets	46,044,756	58,695,131	31,903,205	83,696	-	136,726,788
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	3,001	3,001
Deposits from customers	-	-	-	-	107,186,713	107,186,713
Other liabilities	-	-	-	-	2,438,865	2,438,865
Total liabilities	-	-	-	-	109,628,579	109,628,579

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date

At 31 December 2021	Amortized cost	Amortized cost	Fair value through other comprehensive income financial assets	At fair value through profit or loss	Financial liabilities measured at amortized cost	Carrying amount
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
GROUP						
Assets						
Cash and balances with Central Bank of Kenya	-	6,330,041	-	-	-	6,330,041
Placements and balances with other banks	-	8,957,230	-	-	-	8,957,230
Treasury bills and term notes	20,378,266	121,140	-	-	-	20,499,366
Investment securities measured at amortised cost	33,941,047	-	-	-	-	33,941,047
Investment in bonds-fair value through other comprehensive income	-	-	12,657,390	-	-	12,657,390
Investment in ordinary shares- fair value through other comprehensive income	-	-	3,973,133	-	-	3,973,133
Investment in ordinary shares- at fair value through profit or loss	-	-	-	99,497	-	99,497
Loans and advances to customers	-	37,974,486	-	-	-	37,974,486
Total assets	54,319,273	53,382,897	16,630,523	99,497		124,432,190
Liabilities						
Balances due to banks and financial institutions	-	-	-	-	22,070	22,070
Deposits from customers	-	-	-	-	96,864,456	96,864,456
Other liabilities	-	-	-	-	1,981,137	1,981,137
Total liabilities	-	-	-	-	98,867,663	98,867,663

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2022	Amortized cost Kshs. '000	Amortized cost Kshs. '000	Fair value through other comprehensive income financial assets Kshs. '000	Financial liabilities measured at amortized cost Kshs. '000	Carrying amount Kshs. '000
BANK					
Assets					
Cash and balances with Central Bank of Kenya	-	6,564,442	-	-	6,564,442
Placements and balances with other banks	-	11,014,984	-	-	11,014,984
Treasury bills and term notes	10,886,948	121,140	-	-	11,008,088
Investment securities measured at amortised cost	33,766,758	-	-	-	33,766,758
Investment in bonds-fair value through other comprehensive income	-	-	26,519,721	-	26,519,721
Investment in ordinary shares fair value through other comprehensive income	-	-	4,564,249	-	4,564,249
Loans and advances to customers	-	40,923,643	-	-	40,923,643
Total assets	44,653,706	58,624,209	31,083,970	-	134,361,885
Liabilities					
Balances due to banks and financial institutions	-	-	-	3,001	3,001
Deposits from customers	-	-	-	107,583,684	107,583,684
Other liabilities	-	-	-	1,103,332	1,103,332
Total liabilities	-	-	-	108,690,017	108,690,017

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

c) Classification of financial instruments (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities. The amounts in the table are the carrying amounts of the financial instruments at the reporting date:

At 31 December 2021	Amortized cost	Amortized cost	Fair value through other comprehensive income financial assets	Financial liabilities measured at amortized cost	Carrying amount
	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000	Kshs. '000
BANK					
Assets					
Cash and balances with Central Bank of Kenya	-	6,332,115	-	-	6,332,115
Placements and balances with other banks	-	8,894,382	-	-	8,894,382
Treasury bills and term notes	20,378,266	121,140	-	-	20,499,366
Investment securities measured at amortised cost	32,979,596	-	-	-	32,979,596
Investment in bonds-fair value through other comprehensive income	-	-	11,765,593	-	11,765,593
Investment in ordinary shares fair value through other comprehensive income	-	-	3,868,946	-	3,868,946
Loans and advances to customers	-	37,917,560	-	-	37,917,560
Total assets	53,357,822	53,265,197	15,634,539	-	122,257,558
Liabilities					
Balances due to banks and financial institutions	-	-	-	22,070	22,070
Deposits from customers	-	-	-	97,221,176	97,221,176
Other liabilities	-	-	-	806,746	806,746
Total liabilities	-	-	-	98,049,992	98,049,992

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimising on return on the risk.

Equity price risk

Equity price risk is the risk that the fair value of equities fluctuates as a result of changes in the value of equity indices and individual stocks. A 10% increase in the value of the Bank's at fair value through other comprehensive income equities as at 31 December 2022 would have increased equity by Kshs.456 million (2021: Kshs. 387 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment which would reduce profit before tax.

Interest risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest repricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the repricing frequency.

The table below summarises the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates:

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Interest risk exposure (continued)

As at 31 December 2022	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months to 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
GROUP						
ASSETS						
Placements and balances with other banks	9,755,358	845,809	407,396	-	52,230	11,060,793
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,950,838	13,091,269	16,450,701	35,157,808
Bonds- fair value through other comprehensive income	-	1,251,830	6,379,459	7,757,029	11,861,772	27,250,090
Loans and advances to customers	6,061,938	3,189,235	9,048,833	12,074,598	10,575,756	40,950,360
Total assets	15,817,296	9,445,726	28,199,622	33,024,036	38,940,459	125,427,139
LIABILITIES						
Due to banks & financial institutions	-	-	3,001	-	-	3,001
Deposits from customers	38,307,429	17,352,308	50,324,901	1,202,075	-	107,186,713
Total liabilities	38,307,429	17,352,308	50,327,902	1,202,075	-	107,189,714
Total interest sensitivity gap	(22,490,133)	(7,906,582)	(22,128,280)	31,821,961	38,940,459	18,218,425
As at 31 December 2021						
Total assets	13,447,311	7,447,439	30,795,609	36,187,962	26,151,198	114,029,519
Total liabilities	36,947,256	14,550,829	44,657,944	730,497	-	96,886,526
Total interest sensitivity gap	(23,499,945)	(7,103,390)	(13,862,335)	35,457,465	26,151,198	17,142,993

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Interest risk exposure (continued)

As at 31 December 2022	Up to 1 Month Kshs. '000	1 to 3 Months Kshs. '000	3 Months to 1 Year Kshs. '000	1 to 5 Years Kshs. '000	Over 5 Years Kshs. '000	Total Kshs. '000
BANK						
ASSETS						
Placements and balances with other banks	9,755,358	800,000	407,396	-	52,230	11,014,984
Treasury bills and term notes	-	493,852	10,413,096	101,140	-	11,008,088
Investment securities measured at amortised cost	-	3,665,000	1,931,130	11,719,927	16,450,701	33,766,758
Bills & Bonds- fair value through other comprehensive income	-	1,251,830	6,379,459	7,026,660	11,861,772	26,519,721
Loans and advances to customers	6,061,938	3,189,235	9,022,116	12,074,598	10,575,756	40,923,643
Total assets	15,817,296	9,399,917	28,153,197	30,922,325	38,940,459	123,233,194
LIABILITIES						
Due to banks & financial institutions	-	-	3,001	-	-	3,001
Deposits from customers	38,307,429	17,749,279	50,324,901	1,202,075	-	107,583,684
Total liabilities	38,307,429	17,749,279	50,327,902	1,202,075	-	107,586,685
Total interest sensitivity gap	(22,490,133)	(8,349,362)	(22,174,705)	29,720,250	38,940,459	15,646,509
As at 31 December 2021						
Total assets	13,447,311	7,384,592	30,738,682	34,334,714	26,151,198	112,056,497
Total liabilities	36,947,256	14,907,550	44,657,943	730,497	-	97,243,247
Total interest sensitivity gap	(23,499,945)	(7,522,958)	(13,919,261)	33,604,217	26,151,198	14,813,250

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk (continued)

Interest risk exposure (continued)

The sensitivity computations assume that loan and advances and deposits maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2022 Kshs. '000	2021 Kshs. '000
Effect on profit before tax of a +1% change in interest rates	(82,231)	(173,966)
Effect on profit before tax of a -1% change in interest rates	82,231	173,966

Foreign currency exchange risk

The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the reporting date. The Bank holds foreign currency denominated balances for cash and bank balances and placements, loans and advances and customer deposits. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit or loss.

The Bank's functional currency, the Shilling, has generally, over the recent past shown a weakening tendency against the US dollar and strengthening against the Euro, the two major currencies in which the Bank has significant foreign transactions.

The US dollar

At 31 December 2022, if the US dollar had strengthened by 1% against the Shilling, with all other variables held constant, the sensitised effect on profit or loss would have been a decrease in profit before tax of Kshs. 6,482(2021: Kshs.862,380) mainly as a result of the Dollar denominated net monetary liabilities. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

The Euro

At 31 December 2022, if the Euro had strengthened against the Shilling by 1%, with all other variables held constant, the sensitised effect on profit or loss would have been an increase in profit before tax of Kshs.2,481 (2021: Kshs. 1,370,460) mainly as a result of the Euro denominated net monetary assets. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

In computing the percentage change in exchange rates, management has taken into consideration the direction of the published rates movement in the functional currency against the major foreign transactional currencies over the last two years.

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

The table below summarises foreign currency exposure to the group and bank:

As at 31 December 2022	USD	GBP	Euro	ZAR	JPY	Others	Total
In KShs'000							
Assets							
Cash and cash equivalents (Group and Bank)	8,233,661	1,458,083	442,971	5,063	3,916	34,505	10,178,199
Investment in ordinary shares fair value through other comprehensive income	956,156	-	-	-	-	-	956,156
Offshore bonds	654,070	74,393	-	-	-	-	728,463
Loans and advances	8,511,584	29,330	2,671,797	-	-	-	11,212,711
Others	2,393,171	1,635,291	253,754	-	2,814	7,878	4,292,908
Total assets	20,748,642	3,197,097	3,368,522	5,063	6,730	42,383	27,368,437
Liabilities							
Balances due to banks and financial institutions	-	-	-	-	-	3,001	3,001
Deposits	19,731,918	3,195,286	1,366,254	422	94	20,608	24,314,582
Others	384,708	8,905	2,311,181	3,779	6,438	1,253	2,716,263
Total liabilities	20,116,626	3,204,191	3,677,435	4,201	6,532	24,861	27,033,846
Net exposure as at 31 December 2022	632,016	(7,094)	(308,913)	862	198	17,522	334,591

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

44. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

The table below summarises foreign currency exposure to the group and bank:

As at 31 December 2021	USD	GBP	Euro	ZAR	JPY	Others	Total
In KShs'000							
Assets							
Cash and cash equivalents (Group and Bank)	5,960,701	498,354	284,634	4,531	5,785	18,719	6,772,724
Investment in ordinary shares fair value through other comprehensive income	278,338	-	-	-	-	-	278,338
Offshore bonds	397,260	76,606	-	-	-	-	473,866
Loans and advances	8,286,265	48,661	3,647,244	-	-	-	11,982,170
Others	3,111,645	2,323,531	457,435	49,111	-	3,048	5,944,770
Total assets	18,034,209	2,947,152	4,389,313	53,642	5,785	21,767	25,451,868
Liabilities							
Balances due to banks and financial institutions	-	-	21,064	-	-	-	21,064
Deposits	17,194,799	2,908,490	931,240	1,235	189	1,214	21,037,167
Others	753,172	39,756	3,414,169	51,958	5,385	6,068	4,270,508
Total liabilities	17,947,971	2,948,246	4,366,473	53,193	5,574	7,282	25,328,739
Net exposure as at 31 December 2021	86,238	(1,094)	22,840	449	211	14,485	123,129

Notes to the Consolidated Financial Statements (continued)

AS AT 31 DECEMBER 2022

45. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the yearly assessment of operational risk faced, and the requirements of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

46. CLIMATE RELATED RISK

Climate-related risks' are potential negative impacts on the bank arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit. liquidity, market and operational risks), but due to their pervasive nature have been identified and managed by the Group on an overall basis.
The bank distinguishes between physical risks and transition risks.

Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns such as sustained higher temperatures, heat waves, droughts and rising sea levels.

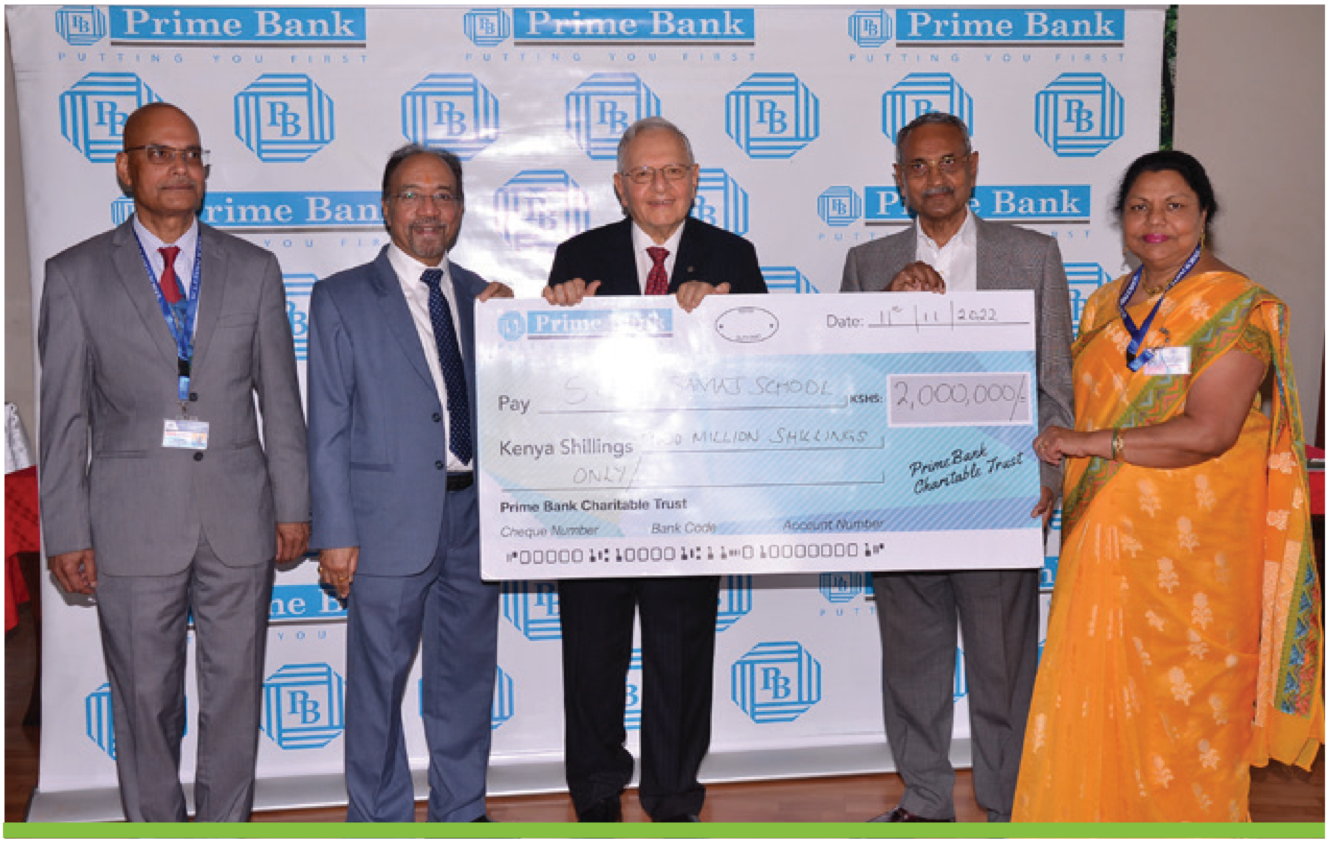
Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy such as changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group is in the process of developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories, developing models that aim to assess how borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs and incorporate climate-related risk into stress test scenarios.

47. EVENTS AFTER THE REPORTING PERIOD

There were no significant adjusting events subsequent to the period end that required adjustment or disclosure in these financial statements.

Corporate Social Responsibility



BURSARY PROGRAMME

Through its Corporate Social Initiatives policy on education, Prime Bank continues to support deserving students to attain education. In 2022, needy students from SCLP Samaj School Nairobi West and Gulab Lochab Academy Eldoret were the beneficiaries of Prime Bank Bursary Program. The two schools received a total of KShs. 2.3 Million from the Bank as that year's bursary to needy students.

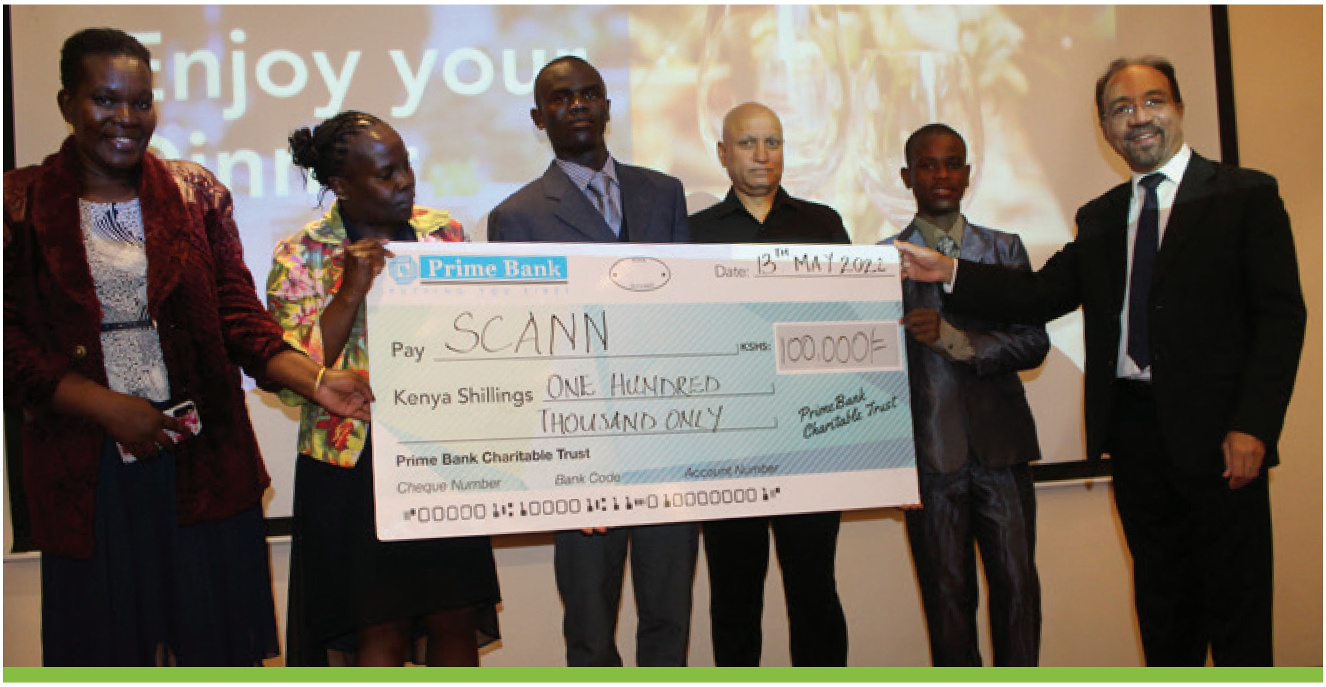
PRIME BANK AND PRIVATE SECTOR JOIN HANDS FOR FAMINE RELIEF

During the period under review, Prime Bank in partnership with Sunrise Walkers, Rotary Club of Parklands, Rotary Clubs of District 9212, Red Cross and Parklands Sports Club joined hands to donate 250 metric Tonnes of food items to feed 20,000 families facing starvation

The initiative was part of efforts to rally Kenyans to come to the aid of millions of Kenyans in need of food aid in Marsabit, Samburu, Isiolo, Garissa and Wajir, with each family getting 20kgs of maize flour, 5kgs beans, 1kg cooking fat and 1kg of Salt.

SHARING CHRISTMAS WITH NYUMBANI CHILDREN'S HOME

As it has always been its tradition during the festive season, Prime Bank staff paid a visit to Nyumbani Children's Home in Nairobi to share the joy of Christmas with the home. The staff interacted and shared special moments with the children through various activities including outdoor games, singing, dancing and sharing a meal in a true reflection of the Bank's spirit of caring for the communities in which we operate in.



SUPPORTING SCANN TO MEET ITS OBLIGATIONS

SCANN is a charitable organization primarily founded to rehabilitate the needy and destitute Street Children in Nakuru County. Currently, SCANN provides food, shelter, clothing, healthcare and education to 151 former street children aged between 5 and 25 years. It also provides education to 5 more needy children externally. Prime Bank continues to support SCANN to meet its obligations on yearly basis.

SUPPORTING ASIAN FOUNDATION

In May 2022, Prime Bank was the main sponsor for the 'Play, Support & Network' golf tournament at the Limuru Country Club. The tourney, which attracted 75 players, raised funds for the Asian Foundation's humanitarian projects in Kenya.

HUNT IN THE WILD

In the course of last year, Prime Bank partnered with Festival of Friendship for the Hunt in the Wild National Park event at the Nairobi National Park as they celebrated 30 years of bringing together different communities and organizations through the popular medium of sports.

NOTES

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