M Oriental

M ORIENTAL BANK LIMITED

ANNUAL REPORT

& FINANCIAL STATEMENTS

For the year ended 31st December 2022

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BANK INFORMATION

Board of directors

Shanti V. Shah - Chairman
Rupen M. Haria
Dennis K. Imathiu
Simon D. Gregory *
Amool J. Nathwani*

Company Secretary

Anne Otunga
Bellmac Consulting LLP
P.O. Box 102 - 00100
Nairobi,
Kenya.

Registered Office

L.R. No.209/1326, Finance House
Koinange Street, Nairobi (CBD)
P.O. Box 44080 - 00100
Nairobi,
Kenya.

Independent Auditor

RSM Eastern Africa LLP
Certified Public Accountants
1st Floor, Pacis Centre,
Slip Road, off Waiyaki Way, Westlands
P.O. Box 349 - 00606
Nairobi,
Kenya.

Principal Bankers

Standard Chartered Bank, New York, United States of America
Standard Chartered Bank, London, United Kingdom
Standard Chartered Bank, Frankfurt, Germany
Axis Bank, Mumbai India

Dear Shareholders

On behalf of the Board of Directors, whom you have entrusted with your investments, I am delighted to present to you the Bank's Annual report and the financial statements for the year ended 2022, with notable milestones achieved in key performance indicators.

Macro-economic overview

Kenya's Real Gross Domestic Product (GDP) expanded by 4.8% in 2022 compared to 7.6% recorded in 2021. The growth was spread across all sectors of the economy, except agriculture but was more pronounced in service-oriented activities.

The Kenya Shilling weakened against key trading countries' currencies. It depreciated by 7.50% against the United States dollar. This was attributable to monetary stances taken by the Federal Reserve by increasing the Federal Rate from 0.25% at the beginning of 2022 to 5.00% at the end of the year to tame high inflation rates. Kenyan Shilling weakened against, the Tanzanian and Ugandan Shilling by 7.0% and 4.5%, respectively, in 2022 but strengthened Rwandese Franc by 24.8%. The usable foreign exchange reserve held by CBK as at end December 2022 was adequate at USD. 7,439 million representing an import cover of 4.17 months against a required minimum threshold of 4.0 months.

High inflation rates were experienced globally and locally. World inflation rose from 4.7% in 2021 to 8.7% in 2022 on account of high energy prices, supply chain disruptions associated with the Russia-Ukraine war. Kenya's inflation rose from 6.1% in 2021 to 7.7% in 2022 on account of the global shocks and drought.

Banking Sector overview

The banking Sector continued to rebound from COVID 19 Pandemic. Commercial Banks operating in Kenya recorded an 22% increase in profit before tax from Kshs. 198 billion in 2021 to Kshs. 242 billion in 2022 buoyed by increased interest income. The industry remained stable and resilient with sufficient capital adequacy and liquidity through the year.

MOBL's performance overview

The Bank's Profit before tax grew by Kshs.176% from Kshs. 67 million in 2021 to Kshs.186 million in 2022. Similarly, profit after tax grew by 175% from Kshs. 47 million in 2021 to Kshs. 129 million in 2022. As a result of the improved profitability, the bank closed the year with positive retained earnings of Kshs. 3 million. The impressive profitability growth was driven by optimal deployment of available funds, focus on non-funded business, cost management and bad debt collections.

The Bank took a cautious stance on balance sheet funding mobilisation considering the high interest rates experienced in 2022, choosing to focus more on current and savings accounts rather than high-cost time deposits. Consequently, MOBL's balance sheet size contracted marginally by 2.4 % to Kshs. 13.33 billion as at end of December 2022 from Kshs. 13.66 billion as at end of previous year. Customer deposits dropped 4% from Kshs. 10.24 billion as at end of 2021 to Kshs. 9.83 billion as at end of 2022. Gross customer advances grew by 11% to Kshs. 7.88 billion as at end of 2022 from Kshs. 7.11 billion as at end of previous year. The bank is committed to organic growth of the balance sheet.

The Bank's overall financial position remained sound and stable with sufficient capital adequacy and liquidity levels. It maintained healthy buffers on its capital ratios over the minimum regulatory requirement. Core Capital to Customer Deposit ratio as at end of 2022 stood at 27% against a statutory minimum requirement of 8%, core capital to total risk weighted assets stood at 29% against a regulatory minimum of 10.50% while total capital to total risk weighted assets stood at 30% against a regulatory minimum of 14.50%. This indicates that the Bank has a wherewithal to support an almost threefold balance sheet size growth from the current levels while complying with minimum regulatory requirements. Similarly, the Bank's liquidity ratio stood at 55% as at end of 2022 against regulatory minimum requirement of 20%. The average liquidity ratio in 2022 was maintained at the same level.

Directors do not recommend declaration of dividends for the year 2022 considering the marginal retained earnings at the close of the year. However, we are optimist that going forward, the bank will be able to pay dividends, having cleared up the past losses.

Regulations

We continue to be compliant with CBK prudential guidelines, the Banking Act and other business regulations.

Outlook

The World Health Organisation has declared that Covid 19 is no longer a global public health threat. It is expected that Kenya economy will maintain a recovery trend from the ravages of the pandemic. Climatic conditions have also improved with sufficient long-season rainfall. However, continued Ukraine- Russia war that erupted at the beginning of 2022 is likely to have a significant impact on global and Kenya economy. There are high energy prices, food and farm input supplies constraints in Kenya and the globe that can be attributed to the war which continues to effectively lead to high interest rates and negatively impacting economic growth.

M Oriental Bank is putting appropriate risk mitigation measures to overcome the challenges while taking advantage of arising opportunities. I believe the Bank is well placed to face the future with confidence.

Appreciation

I take this opportunity to thank our clients for their unwavering support as they are the key contributors to our success. My colleagues in the Board/ Management join me in expressing our gratitude to them. We on our part re-dedicate ourselves to continue to look after them in the best way possible and pray for their prosperity.

I further take this opportunity on behalf of the 'M Oriental Family to express our gratitude to Central Bank of Kenya and their Officials for their guidance and understanding.

I also thank our statutory auditors RSM Eastern Africa LLP for their objective assessment of the Bank's Financial statements.

I further wish to acknowledge that the support, valued opinion, confidence, and guidance received by me from my team of Directors has been commendable. I am grateful to each one of them individually and severally.

I, along with the Board members wish to convey our heartfelt thanks to the entire Staff and Management under the very able and dedicated leadership of our CEO for the outstanding performance of the Bank.

Finally, a big 'Thank you' to you, the shareholders, for your continued support, patience, and confidence in us which is leading us towards our goals.

Shanti V. Shah
Chairman

BOARD OF DIRECTORS

Shanti Shah
Chairman

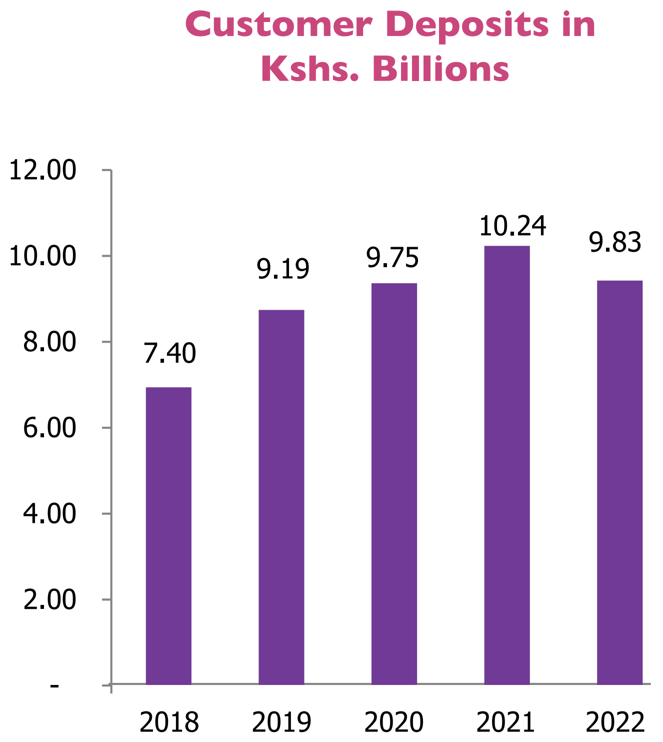
Koome Imathiu
Director

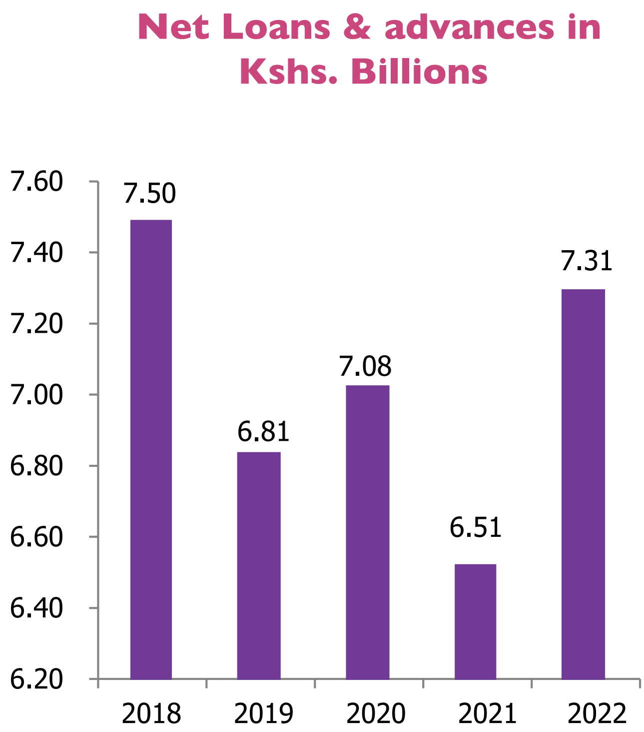
Rupen Haria
Director

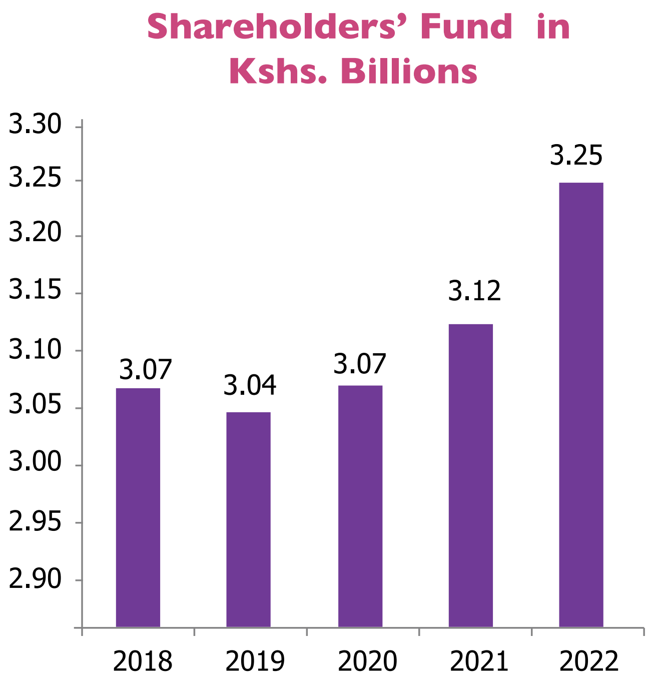
Simon Gregory
Director

Amool Jivrav Nathwani
Director

FINANCIAL HIGHLIGHTS







STATEMENT OF CORPORATE GOVERNANCE

Corporate governance involves a set of relationships between a broad group of stakeholders, including shareholders, Board of Directors, management, employees, customers, suppliers, regulators and the general public that guides the way companies are directed and controlled. The Board of Directors recognises importance of good corporate governance and is fully committed to achieving and sustaining the highest standards of corporate governance.

Shareholders

The shareholders' roles are firstly to appoint the Directors and hold the Board accountable and responsible for efficient and effective governance of the Bank. Secondly, they also appoint the independent auditor of the Bank.

Board of Directors

The Board meets regularly and had four sittings during the year 2022 as shown on page 4. Matters requiring urgent attention were resolved through circular resolutions. Apart from the regular Board meetings, communication between the Executive Management and the Board is on a continuous basis mainly by way of Board memoranda and electronic mail which are circulated to all Directors.

The Board has delegated the authority of day to day management to the Chief Executive Officer (CEO) but retains the overall responsibility for financial and operating decisions as indicated on the statement of directors' responsibilities. The Board has access to the Company Secretary. To ensure effectiveness, the Board has set up various committees which operate within and in accordance with clearly set terms of reference. The committees report to the Board at periodic intervals and by circulation.

These committees are:-

1. Board Audit Committee

The role of the Board Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process. It is also responsible for continually evaluating the effectiveness of internal control systems and regularly receives reports from internal and external auditors and management's corrective actions in response to the findings. The committee meets on a quarterly basis and its members are:

(i) Amool J. Nathwani - Chairman

(ii) Dennis K. Imathiu - Member

(iii) Simon D. Gregory - Member

2. Board Risk and Compliance Committee

The Board Risk and Compliance Committee monitors all risk exposures against defined thresholds and appetite. The committee also monitors legal and regulatory changes in the external environment and oversees compliance with relevant laws, regulations and directives. The committee meets on a quarterly basis and its members are:

(i) Dennis K. Imathiu - Chairman

(ii) Amool J. Nathwani - Member

(iii) Simon D. Gregory - Member

3. Board Credit Committee

The function of this committee is to appraise and approve credit applications within the limits set by the Board and review of the quality of loans portfolio ensuring adequate loan loss provisions are held in line with the prudential guidelines. The committee also oversees and reviews the overall lending policies of the Bank. The committee meets as and when need arises. Members of this committee are:

(i) Amool J. Nathwani - Chairman

(ii) Shanti V. Shah - Member

(iii) Rupen M. Haria - Member

4. Board Appointment & Compensation Committee

The function of this committee is to oversee appointments and the compensation system's design and operation on behalf of the Board of Directors. The committee meets as and when the need arises. Members of this committee are:

(i) Simon D. Gregory - Chairman

(i) Shanti V. Shah - Member

(iii) Rupen M. Haria - Member

Board Evaluation

The Board has had regular communication on its composition and effectiveness. Through the communications, directors are called upon on the functions requiring their expertise. This is taken into account in peer review performance.

A Board assessment and peer review on performance was undertaken for the year ended 31st December 2022. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities.

A detailed report has been separately submitted to Central Bank of Kenya as per Prudential Guidelines.

Management committees

For effective delegation the CEO has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed Terms of Reference as approved by the Board. These Committees include Asset and Liabilities Committee (ALCO), Management Committee, Executive Credit Committee and Human Resource Committee.

4. Board Appointment & Compensation Committee (continued)

Management committees

Tabulated below are the committees, their membership, frequency of meetings and functions:

	Asset and Liabilities Committee	Management Credit Committee	Executive Committee
Chairman	C.E.O.	C.E.O.	C.E.O.
Members	Head - Treasury Chief Manager- Credit Chief Operations Officer Financial Controller	Chief Manager- Credit Financial Controller Chief Operating Officer	Chief Manager- Credit Chief Operations Officer Financial Controller
Frequency of meetings	Monthly	Monthly	Monthly
Main functions	Management of statement of financial position and liquidity	Appraisal and approval of credit applications	Strategy decision making

The Bank is a public limited company and fully complies with the Banking Act and the Central Bank of Kenya Prudential Guidelines. The Bank distributes its annual report and financial statements and also publishes quarterly reports and notices in the national dailies to ensure that the shareholders are fully informed of the Bank's performance. No individual shareholder has direct or indirect control powers to control the institution and all shareholders have access to the Bank and it's Company Secretary who responds to their correspondences. In accordance with the Companies Act, 2015 the shareholders have access to the shares register.

Board Meeting Attendance

Date of Meeting	S.V. Shah	R.M. Haria	S.D. Gregory	D.K. Imathiu	A.J. Nathwani
23/03/2022	√	√	√	√	√
29/06/2022	√	√	√	√	√
30/09/2022	√	√	√	√	√
23/12/2022	√	√	√	√	√
Total meetings attended	4	4	4	4	4
Percentage attendance while on the Board	100%	100%	100%	100%	100%

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Shanti V. Shah
Chairman

Nitin Shendye
Chief Executive Officer

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2022, in accordance with Section 22 of the Banking Act and Section 653 of the Kenyan Companies Act, 2015, which disclose the state of affairs of M-Oriental Bank Limited (the "Bank").

Directorate

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

Principal activities

The Bank is licensed under the Banking Act and provides banking, financial and related services.

Dividend

The directors do not recommend the declaration of a dividend for the year (2021: Nil).

Business review

Global fight against inflation, Russia's war in Ukraine, and a resurgence of COVID-19 in China weighed on global economic activity in 2022. Latest data from Kenya National Bureau of Statistics (KNBS) indicates that Kenya economy registered a decelerated average quartely GDP growh of 5.5% in the first three quarters of 2023 compared to 7.6% in a similar period in 2021 owing owing to the significantly high growth rates in the later that signified recovery from the impact of the COVID-19 pandemic. The country experienced a relatively peaceful general election with minimal business interuptions. However it experienced high inflation rates and depreciation of the local currency resulting from increased food and fuel prices that were attributable to supply constraints resulting from a tough drought and Russia's war in Ukraine. Average monthly inflation rate in 2022 was 7.6% compared to 6.1% and above the government target of 5.0% +/- 2.5%. The local currency depreciated by 9.0% against the USD in 2022.

Despite the above constraints, the Bank's profit after tax grew by 175% to Kshs.129 million in 2022 compared to Kshs. 47 million in 2021. The growth was supported by impressive performance in all major income lines driven by increased customer lending, optimal deployment of liquid funds, increased focus on transactional business and debt collections.

Consequently, cleared all the past years accumulated losses and closed the year with a retained earning of Kshs. 3 million. Organic balance sheet growth, transactional business and bad debts collections will be the main focus for the bank in 2023 and beyond.

With 7 branches across most of the major towns in Kenya, 87 experienced and highly skilled staff members, M-Oriental Bank is a highly respected financial institution which serves discerning customers across the country.

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 director is aware, no relevant audit information of which the Bank's auditor is unaware; and

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

Terms of appointment of the auditor

The directors 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 KSh 4,250,000 has been charged to profit or loss in the year.

By order of the board

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Chairman
Nairobi 10th March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the 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 10th March 2023 **and signed on its behalf by**:

....	....
Chairman	**Chief Executive Officer**

Opinion

We have audited the accompanying financial statements of M-Oriental Bank Limited (the "Bank"), set out on pages 14 to 51, which comprise the statement of financial position as at 31st December 2022, the profit and loss account, statement of changes in equity and cash flows for the year then ended, and notes, including material accounting policy information.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31st December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. In accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the financial statements, our responsibility is to read the other information 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, 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.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the 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 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 or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

In our opinion the information given in the report of the directors on page 5 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Elvis Ogeto,** Practising Certificate No. 2303.

for and on behalf of RSM Eastern Africa LLP

Certified Public Accountants

Nairobi

10th March 2023

Profit And Loss Account For The Year Ended 31st December 2022

	Note	2022 KSh'000	2021 KSh'000
Interest income	5	1,430,556	1,306,776
Interest expense	6	(661,969)	(659,303)
Net interest income		768,587	647,473
Fee and commission income	7	107,579	95,275
Fee and commission expense	7	(2,853)	(3,535)
Net fee and commission income		104,726	91,740
Net trading income	8	59,298	26,160
Changes in fair value of financial assets at fair value	9	(2,991)	(1,471)
Other income	10	1,671	1,347
Total income		931,291	765,249
Employee benefits expense		(252,864)	(238,672)
Other expenses		(210,863)	(212,725)
Net impairment losses on loans and advances	11	(281,257)	(246,413)
Profit before tax expense	12	186,307	67,439
Tax expense	13	(56,893)	(20,361)
Profit for the year attributable to the owners of the Bank		129,414	47,078
Earnings per share attributable to the owners of the Bank			
Basic and diluted (KSh per share)	14	1.04	0.38

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2022

	Note	2022 KSh'000	2021 KSh'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	667,501	762,857
Loans and advances to banking institutions	16	709,534	1,302,640
Government securities at amortised cost	17	4,079,609	4,552,306
Loans and advances to customers	18	7,306,544	6,506,864
Other financial assets at fair value through profit or loss	19	9,739	12,729
Other receivables	20	148,504	122,555
Intangible assets	21	14,439	28,630
Property and equipment	22	22,750	27,607
Right - of - use assets	23	130,501	130,478
Deferred income tax	24	244,651	210,803
Total assets		13,333,772	13,657,469
LIABILITIES			
Deposits from customers	25	9,831,714	10,242,665
Deposits from banks	26	-	100,015
Lease liabilities	27	151,423	146,890
Current tax payable		63,013	5,638
Other payables	28	40,239	44,292
Total liabilities		10,086,389	10,539,500
SHAREHOLDERS' EQUITY			
Share capital	29	2,491,031	2,491,031
Shareholders' contributions pending allotment	29	8,969	8,969
Share premium	29	412,819	412,819
Regulatory reserve	30	331,789	313,450
Accumulated profits/(losses)		2,775	(108,300)
Total shareholders' equity		3,247,383	3,117,969
Total liabilities and shareholders' equity		13,333,772	13,657,469

The financial statements on pages 14 to 51 were approved for issue by the board of directors on 10th March 2023 and were signed on its behalf by:

…………………………..
Chairman

……………………………………..
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2022

	Note	Share capital KSh'000	Shareholders' contributions pending allotment KSh'000	Share premium KSh'000	Regulatory reserve KSh'000	Accumulated profit/ (losses) KSh'000	Total KSh'000
At 1st January 2021		2,491,031	8,969	412,819	313,450	(155,378)	3,070,891
Changes in equity in 2021							
Profit for the year		-	-	-	-	47,078	47,078
At 31st December 2021		2,491,031	8,969	412,819	313,450	(108,300)	3,117,969
At 1st January 2022		2,491,031	8,969	412,819	313,450	(108,300)	3,117,969
Changes in equity in 2022							
Profit for the year		-	-	-	-	129,414	129,414
Transfer to regulatory reserve		-	-	-	18,339	(18,339)	-
At 31st December 2022		2,491,031	8,969	412,819	331,789	2,775	3,247,383

STATEMENT OD CASHFLOWS FOR THE YEAR ENDED 31ST DECEMBER 2022

	Note	2022 KSh'000	2021 KSh'000
Cash flows from operating activities			
Interest receipts		1,381,300	1,284,280
Interest payments		(658,805)	(645,933)
Net fees and commission receipts		104,726	91,740
Net trading income		59,298	26,160
Other sundry income		1,671	1,137
Tax paid		(33,366)	(26,435)
Payments to employees and suppliers		(424,091)	(384,071)
Cash flows generated from operating activities before changes in operating assets and liabilities		430,733	346,878
Decrease/(increase) in operating assets and liabilities:			
- Cash reserve ratio		25,071	(28,411)
- Financial assets at amortised cost		521,953	(1,305,005)
- Loans and advances		(1,080,937)	294,989
- Other receivables		(24,765)	29,666
- Borrowing from banking institutions		(100,015)	100,015
- Customer deposits		(400,999)	493,167
- Other payables		14,300	(34,330)
Net cash used in operating activities		(614,659)	(103,031)
Cash flows from investing activities			
Purchase of property and equipment	22	(5,930)	(5,521)
Purchase of intangible assets	21	(1,450)	-
Proceeds from sale of financial assets at fair value		-	5,760
Dividend received		-	799
Net cash (used in)/generated from investing activities		(7,380)	1,038
Cash flows from investing activities			
Lease liabilities payments - principal	27	(28,236)	(32,666)
Lease liabilities payments - interest	27	(13,116)	(12,749)
Net cash used in financing activities		(41,352)	(45,415)
Net decrease in cash and cash equivalents		(663,391)	(147,408)
Cash and cash equivalents at start of year		1,627,151	1,774,559
Cash and cash equivalents at end of year	31	963,760	1,627,151

1. General information

M-Oriental Bank Limited (the "Bank") is domiciled in Kenya where it is incorporated under the Kenyan Companies Act, 2015 as a private company limited by shares. The address of its registered office and principal place of business is L.R. No. 209/1326, Finance House, Nairobi (CBD), P.O. Box 44080 - 00100, Nairobi, Kenya.

2. Material accounting policy information

The accounting policy information considered material in the preparation of these financial statements is set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (KSh'000).

The financial statements comprise a profit and loss account (statement of profit or loss), statement of financial position (balance sheet), statement of changes in equity, statement of cash flows, and notes. Income and expenses are recognised in the profit and loss account.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies sumarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

"Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Bank at the end of the reporting period during which the change occurred."

2. Material accounting policy information (continued)

b) New and revised standards

i) Adoption of new and revised standards

Five Amendments to standards became effective for the first time in the financial year beginning 1st January 2022 and have been adopted by the Bank. None of the Amendments has had an effect on the Bank's financial statements.

Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1st January 2022.

Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)

The amendments, applicable to annual periods beginning on or after 1st January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendment to IFRS 1 titled Subsidiary as a First-time Adopter (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1st January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.

Amendment to IFRS 9 titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1st January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1st January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

ii) New and revised standards that have been issued but are not yet effective

The Bank has not applied any other of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1st January 2022, and the Directors do not plan to apply any of them until they become effective. Note 34 lists all such new or revised standards and interpretations, with their effective dates, none of which is expected to have a significant impact on the Bank's financial statements in the period of initial application.

2. Material accounting policy information (continued)

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Bank operates), which is Kenyan Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary assets measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

d) Net interest income and expense

Interest income and expense on financial assets or liabilities are recognised in the profit and loss account using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on the initial recognition of the financial asset or liability and is not revised subsequently. When estimating the future cash flows all contractual cash flows from the financial asset or liability are taken into consideration with the exception of the estimates of future credit losses. This includes all fees paid or received between parties to the contract, transaction costs and discounts or premiums received or paid.

Once a credit-impaired financial asset has been written down to reflect the lifetime expected credit loss, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

e) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate on financial assets or liabilities are included in the measurement of the effective interest rate. Other fee and commission income, including servicing fees, investment management fees and syndication fees are recognised over time as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

f) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

Foreign exchange income is recognised at the time of effecting the transactions and includes income from spot and forward deals and translation gains/losses.

g) Offsetting

Items of assets and liabilities are not offset unless there is a legally enforceable right to set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Items of income and expenses are presented on a net basis only for gains and losses arising from a group of similar transactions such as foreign exchange trading activities.

h) Income taxes

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

Deferred tax assets and liabilities are not recognised on temporary differences arising on the initial recognition of an asset or liability, unless the transaction: (i) is a business combination; (ii) at the time of the transaction affects either the accounting and/or taxable profit or loss; or (iii) at the time of the transaction gives rise to equal taxable and deductible temporary differences.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

i) Share capital and share premium

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

j) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Bank (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders of the Bank and the weighted average number of ordinary shares outstanding for the after-tax effect of all dilutive potential ordinary shares.

k) Financial instruments

Initial recognition

Financial instruments are recognised when, and only when, the Bank becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Bank commits itself to the purchase or sale.

2. Material accounting policy information (continued)

k) Financial instruments (continued)

Classification

The Bank classifies its financial instruments into the following categories:

i) Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost.

ii) Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at fair value through other comprehensive income.

iii) All other financial assets are classified and measured at fair value through profit or loss.

iv) Notwithstanding the above, the Bank may:

a) on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.

b) on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

v) Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The Bank may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

vi) All other financial liabilities are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:

- Loans and advances, and investments in government securities were classified at amortised cost;
- Other investments in shares were classified as at fair value through profit or loss; and
- Customer deposits other liabilities were classified as at amortised cost.

Initial measurement

On initial recognition:

i) Financial assets or financial liabilities classified as at fair value through profit or loss are measured at fair value.

ii) All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the instrument.

2. Material accounting policy information (continued)

k) Financial instruments (continued)

Subsequent measurement

Financial assets and financial liabilities after initial recognition are measured either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss according to their classification.

Interest income, dividend income, and exchange gains and losses on monetary items are recognised in profit or loss.

Fair value is determined as set out in Note 1(a), Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Impairment

The Bank recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost or at fair value through other comprehensive income. The loss allowance is measured at an amount equal to the lifetime expected credit losses for loans and advances and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a loan and advance has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Bank has transferred substantially all risks and rewards of ownership, or when the Bank has no reasonable expectations of recovering the asset.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Material accounting policy information (continued)

k) Financial instruments (continued)

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counter party liability included in amounts due to banking institutions.

Treasury bills purchased from the Central Bank of Kenya under agreements to resell (Reverse Repos) are not negotiable or discountable during their tenure and are presented as 'balances with Central Bank of Kenya' until they are repurchased.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

l) Regulatory reserve

Banking institutions are required to comply with Central Bank of Kenya Prudential Guideline CBK/PG/04 - Risk Classification of Assets and Provisioning which sets out amongst other issues, provisioning guidelines for loans and advances to customers based on performance. Where the impairment provision calculated using CBK/PG/04 exceeds the impairment provision calculated in accordance with the Bank's accounting policy, the excess is shown as an appropriation of retained earnings, within equity.

m) Leases

Leases under which the Bank is the lessee

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

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

For leases that contain non-lease components, the Bank allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

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

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

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

Leases under which the Bank is the lessor

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

n) Post-employment benefit obligations

The Bank operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the Bank pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Bank's contributions are charged to the profit and loss account in the year to which they relate.

The Bank and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Bank's contributions are charged to the profit and loss account in the year to which they relate.

o) Short term employee benefits

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

p) Property and equipment

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

q) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Bank are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life.

r) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

s) Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement comprise cash in hand, unrestricted balances with the Central Bank of Kenya, government securities and loans and advances to Banks with maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, less deposits from banking institutions. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya. Cash flows from Repo agreements are included as part of cash flows from operating activities.

t) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit and loss account in the year in which it is determined.

3. Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Bank, the directors make certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

a) Significant judgements made in applying the Bank's accounting policies

The judgements made by the directors in the process of applying the Bank's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

i) classification of loans and advances, including whether or not the loan or advance is impaired.

ii) classification of financial assets: whether the business model in which financial assets are held has as its objective the holding of such assets to collect contractual cash flows or to both collect contractual cash flows and sell the assets; and whether the contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest;

iii) whether credit risk on financial assets has increased significantly since initial recognition; and

iv) how to determine the incremental borrowing rate used in the discounting of lease liabilities.

b) Key sources of estimation uncertainty

Key assumptions about the future made by the directors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) Estimates made in determining the expected credit losses on financial assets. Such estimates include the determination of probabilities of default including the use of forward looking information, and of losses given default.

ii) The Bank is exposed to various contingent liabilities in the normal course of business. Management evaluates the status of these exposures on a regular basis to assess the probability of the Bank incurring related liabilities. However, provisions are made in the financial statements only where, based on the management's evaluation, a reliable estimate of the obligation can be made.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management

The Bank's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Bank's overall risk management policies are set out by the board and implemented by the management and involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the banking business, and compliance and regulatory risks, operational risks and reputational risks are a normal consequence of such a business undertaking. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects of such risks on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and services offered, and emerging best practice. The Bank, through its training programme and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The board has established a Board Risk and Compliance Committee and an Asset and Liability Committee (ALCO), which are responsible for developing and managing the Bank's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Board Audit Committee, through the Internal Audit Department, is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the appropriateness of the risk management framework in line with the risks faced by the Bank.

i) Credit risk and expected credit losses

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from the Bank's loans and advances to customers, to banking institutions, and investment securities. Management and control of credit risk is centralised at the credit and treasury departments of the Bank.

Loans and advances to customers

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees. The following factors are considered when assessing credit risk of loans and advances to customers:

- the probability of default by borrowers on their contractual obligations;
- current exposures to the borrowers and likely future developments, from which the Bank derives its exposure to risk; and
- the likely recovery ratio on the defaulted obligations.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. In addition, the Kenyan Banking Act also sets the maximum exposure to a single party or group. It also sets the maximum exposure to insiders and places a ceiling on the total lending to insiders. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee. The exposure to any one borrower is further restricted by sub-limits covering on and off balance sheet exposures in relation to trading items.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

i) Credit risk and expected credit losses (continued)

Loans and advances to customers (continued)

The Bank monitors default of individual borrowers by using internal rating methods, which are based on Central Bank of Kenya Prudential Guideline CBK/PG/04. As per the Prudential Guideline, loans and advances are graded into the following categories:

- Normal
- Watch
- Substandard
- Doubtful
- Loss

Management assesses the credit quality of each borrower, taking into account their financial position, past experience and other factors. Individual limits are set based on internal or external information and in accordance with guidelines set by the board. The utilisation of credit limits is regularly monitored and corrective action taken, where necessary.

The Bank also uses credit-related commitments as a control and mitigation measure for credit risk on loans and advances. The primary purpose of these instruments is to ensure that funds are available to a customer as and when required. Guarantees and letters of credit carry the same credit risk as loans and advances.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

In certain cases, the Bank, in an effort to recover a past due or impaired loan and advance, renegotiates the repayment terms with the individual customers. Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee, indicate that payment will most likely continue. These policies are kept under continuous review.

Letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

Other financial assets

Credit risk on loans and advances to banking institutions is managed by dealing with institutions, taking into account internal ratings and placing limits on deposits that can be held with each institution.

Due to the inherent nature of Government securities, these are considered to have minimal credit risk.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

i) Credit risk and expected credit losses (continued)

Loans and advances to customers (continued)

Expected credit losses

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

Stage 1: financial assets that is not credit impaired at initial recognition and for which credit risk has not increased significantly since initial recognition;
Stage 2: financial assets for which credit risk has increased significantly since initial recognition, but is not yet deemed to be credit-impaired; and
Stage 3: financial assets that are credit-impaired.

In accordance with the Bank's accounting policy, for assets in Stages 2 and 3 allowance is made for expected credit losses that result from all possible default events over the expected life of a financial instrument. For assets in Stage 1 allowance is made for that portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial asset has increased significantly, the Bank compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Bank considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. A downgrading of the Bank's internal credit rating (see above) would be considered as indicating a significant increase in credit risk. There is also a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purposes default is defined as having occurred if the borrower is in breach of contractual obligations, or if information is available internally or externally that suggests that the borrower is unlikely to be able to meet its obligations.

If the Bank does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the Bank groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument
- industry in which the borrower operates
- nature of collateral.

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. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the borrower
- a breach of contract, such as a default or past due event
- it is probable that the borrower will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

However, there is a rebuttable assumption that a financial asset that is 90 days past due is credit-impaired.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

i) Credit risk and expected credit losses (continued)

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses		
	Stage 1	Stage 2	Stage 3	Total
	KSh'000	KSh'000	KSh'000	KSh'000
At 31st December 2022				
Cash and balances with Central Bank of Kenya	667,501	-	-	667,501
Loans and advances to banking institutions	709,534	-	-	709,534
Government securities at amortised cost	4,079,609	-	-	4,079,609
Loans and advances to customers	5,862,240	457,743	1,561,392	7,881,375
Other financial assets at fair value through profit or loss	9,739	-	-	9,739
Other receivables	89,422	-	-	89,422
Gross carrying amount	11,418,045	457,743	1,561,392	13,437,180
Loss allowance	(55,645)	(37,503)	(481,683)	(574,831)
Exposure to credit risk	11,362,400	420,240	1,079,709	12,862,349
At 31st December 2021				
Cash and balances with Central Bank of Kenya	762,857	-	-	762,857
Loans and advances to banking institutions	1,302,640	-	-	1,302,640
Loans and advances to customers	4,907,750	370,205	1,840,572	7,118,527
Government securities at amortised cost	4,552,306	-	-	4,552,306
Other financial assets at fair value through profit or loss	12,729	-	-	12,729
Other receivables	64,657	-	-	64,657
Gross carrying amount	11,602,939	370,205	1,840,572	13,813,716
Loss allowance	(35,647)	(35,298)	(540,718)	(611,663)
Exposure to credit risk	11,567,292	334,907	1,299,854	13,202,053

The Bank holds collateral against loans and advances to customers in the form of residential and commercial property, plant and machinery, and pledged deposits. The fair value of collateral held is estimated credit of KSh 25,672,873,000 (2021: KSh 18,424,000,000), which includes KSh 2,722, 461,000 (2021: KSh 2,955,461,000) in respect of impaired loans and advances.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

i) Credit risk and expected credit losses (continued)

The changes in the loss allowance during the year were as follows:

	12-month expected credit losses	Lifetime expected credit losses		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	KSh'000	**KSh'000**	**KSh'000**	**KSh'000**
Year ended 31st December 2022				
At start of year	35,647	35,298	540,718	611,663
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	19,998	2,205	230,790	252,993
Changes because of financial assets that were written off during the year	-	-	(289,825)	(289,825)
At end of year	55,645	37,503	481,683	574,831
Year ended 31st December 2021				
At start of year	31,575	42,894	395,612	470,081
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	4,072	(7,596)	145,524	142,000
Changes because of financial assets that were written off during the year	-	-	(418)	(418)
At end of year	35,647	35,298	540,718	611,663

The loss allowances at the end of each year relate to the following financial assets:	12-month expected credit losses	Lifetime expected credit losses		
	Stage 1	Stage 2	Stage 3	Total
	KSh'000	KSh'000	KSh'000	KSh'000
At 31st December 2022				
Loans and advances to customers	55,645	37,503	481,683	574,831
Total	55,645	37,503	481,683	574,831
At 31st December 2021				
Loans and advances to customers	35,647	35,298	540,718	611,663
Total	31,575	42,894	395,612	611,663

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. 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 without incurring unacceptable losses or risking damage to the Bank's reputation. This responsibility rests with the Assets and Liabilities Committee (ALCO).

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of liquidity risk. It is unusual for banks to ever be completely matched since business transacted is often on uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank maintains a portfolio of short-term liquid assets, made up of loans and advances to banking institutions and balances with Central Bank of Kenya to manage the day-to-day liquidity requirements. Management reviews the liquidity ratio of liquid assets to customer deposits on a daily basis and performs scenario testing to ensure that sufficient liquidity is maintained to meet maturing deposits. The Bank fully complies with the Central Bank of Kenya's minimum Cash Reserve Ratio (4.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 55% (2021: 55%) during the year. The Bank has not defaulted on its Cash Reserve Ratio requirements.

The liquidity ratio at the balance sheet date was:

	2022	2021
	KSh'000	KSh'000
Liquid assets	5,456,644	6,517,788
Deposits	9,831,714	10,242,665
Other payables	40,239	44,292
Current tax payable	63,013	5,638
Lease liabilities	46,406	37,275
Liquidity (%)	55	63

The scenario testing at 31st December 2022 indicated a liquidity ratio of 35% (2021: 49%) in the worst case scenario.

The table below analyses financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

ii) Liquidity risk

At 31st December 2022	Up to 1 month KSh'000	1 - 3 months KSh'000	3 - 12 months KSh'000	1 - 5 years KSh'000	Total KSh'000
Financial liabilities					
Deposits from customers	3,663,114	3,604,941	2,563,659	-	9,831,714
Current tax payable	63,013	-	-	-	63,013
Other payables	40,239	-	-	-	40,239
Lease liabilities	11,340	-	35,066	105,017	151,423
Total financial liabilities	3,777,706	3,604,941	2,598,725	105,017	10,086,389

At 31st December 2021	Up to 1 month KSh'000	1 - 3 months KSh'000	3 - 12 months KSh'000	1 - 5 years KSh'000	Total KSh'000
Financial liabilities					
Deposits from customers	5,348,479	3,779,149	1,115,037	-	10,242,665
Current tax payable	5,638	-	-	-	5,638
Other payables	44,292	-	-	-	44,292
Lease liabilities	9,319	-	27,956	109,615	146,890
Total financial liabilities	5,407,728	3,779,149	1,142,993	109,615	10,439,485

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility.

The objectives of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall the management of market risk rests with the Assets and Liability Committee (ALCO).

The Treasury Department is responsible for the development of detailed risk management policies, subject to review and approval by the board, and for the day to day implementation of these policies.

Market risks arise mainly from trading and non-trading activities. Trading portfolios include those positions arising from market-making transactions where the Bank acts as a principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolio risks also include foreign exchange risk and risks arising from the Bank's government and other investment securities carried at amortised cost.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

Interest rate risk

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. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes.

The Bank is exposed to cash flow interest rate risk on its variable rate financial instruments carried at amortised cost (loans and advances, call deposits and savings accounts, and government securities carried at amortised cost). If market interest rates were to increase/decrease by one percentage point, with all other factors remaining constant, post-tax profit would be higher/lower by KSh 46,374,000 (2021:KSh 41,972,000) with respect to cash flow interest rate risk.

Currency risk

The Bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondent banks and takes deposits and lends in other currencies. The Bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

4. Nature and extent of risks arising from financial instruments

a) Financial risk management (continued)

Currency risk (continued)

The significant currency positions are detailed below:

At 31st December 2022	US	GB £	Euros	Indian Rupee	Others	Total
	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000	KSh'000
Assets						
Cash in hand	36,046	1,269	10,899	-	1	48,215
Balances with Central Bank of Kenya	44,994	7,261	4,534	-	-	56,789
Deposits and balances due from banking institutions	292,834	308,556	16,922	796	-	619,109
Government securities at amortised cost	172,309	-	-	-	-	172,309
Loans and advances to customers	657,718	-	8,832	-	-	666,550
Other Assets	382	-	-	-	-	382
Total assets	1,204,283	317,086	41,187	796	1	1,563,354
Liabilities						
Deposits from customers	1,197,746	317,777	27,921	-	-	1,543,444
Other foreign liabilities	76	-	-	-	-	76
Total liabilities	1,197,822	317,777	27,921	-	-	1,543,520
Net balance sheet position	6,461	(691)	13,266	796	1	19,834
At 31st December 2021						
Total assets	1,025,158	569,595	18,804	394	1	1,613,952
Total liabilities	1,030,165	568,198	4,205	-	-	1,602,568
Net balance sheet position	(5,007)	1,397	14,599	394	1	11,384

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, post-tax profit would have decreased by KSh 1,388,345 (2021: KSh 796,000). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

4. Nature and extent of risks arising from financial instruments

b) Capital management

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

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

ii) To safeguard the Bank's ability to continue as a going concern while at the same time maximise the returns to the shareholders and benefit the other stakeholders; and

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

The Bank monitors the adequacy of its capital using the minimum capital requirements and ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the Bank's core capital with total risk-weighted assets plus risk weighted off-balance sheet items, total deposit liabilities and total risk weighted off balance sheet items.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. For example cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines, such assets must be supported by capital equal to 100% of their carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc, are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less investments in equity instruments of other financial institutions. Supplementary capital (Tier 2) includes general provisions appropriated from revenue reserves, up to a maximum of 1.25% of total risk weighted assets.

4. Nature and extent of risks arising from financial instruments

b) Capital management

	Balance sheet nominal amount		Risk weighted amount	
	2022	2021	2022	2021
	KSh'000	KSh'000	KSh'000	KSh'000
Cash in hand and balances with Central Bank of Kenya	667,501	762,857	-	-
Placements and deposits with banking institutions	709,534	1,302,640	141,907	260,528
Government securities at amortised cost	4,079,609	4,552,306	-	-
Loans and advances to customers	7,306,544	6,506,864	5,857,796	5,236,435
Other financial assets at fair value through profit or loss	9,739	12,729	9,739	12,729
Other receivables	148,504	122,555	148,504	122,555
Property, plant and equipment	14,439	27,607	14,439	27,607
Intangible assets	22,750	28,630	22,750	28,630
Right - of - use assets	130,501	130,478	130,501	130,478
Deferred tax asset	244,651	210,803	244,651	210,803
	13,333,772	13,657,469	6,570,287	6,029,765
Off-balance sheet positions			883,918	473,415
Total credit risk weighted assets			7,454,205	6,503,180
Less: market risk qualifying assets			9,739	12,729
Adjusted credit risk weighted assets			7,444,466	6,490,451
Market risk equivalent assets			679,249	1,493,855
Operation risk equivalent assets			1,208,907	1,133,190
Total risk weighted assets			9,332,622	9,117,496

	2022	2021
	KSh'000	KSh'000
Tier 1 capital	2,670,943	2,593,716
Tier 2 capital	116,658	113,969
Total capital	2,787,601	2,707,685
Total deposit liabilities	9,831,714	10,242,665

	Actual ratios		Minimum requirement	
	2022	2021	2022	2021
	%	%	%	%
Core capital to total risk weighted assets	29	28	10.5	10.5
Total capital to total risk weighted assets	30	30	14.5	14.5
Core capital to deposit liabilities	27	25	8.0	8.0

The Kenyan Banking Act also sets out the minimum core capital requirement of KSh 1 Billion (2021: KSh 1 Billion) which the bank fully complied with.

5 Interest income

.	2022 KSh'000	2021 KSh'000
Loans and advances to customers	755,493	703,566
Interest income on impaired loans and advances	236,109	198,184
Placements with and loans and advances to banking institutions	18,201	36,201
Financial assets at amortised cost	420,753	368,825
	1,430,556	1,306,776

6. Interest expense

Customer deposits	640,707	646,349
Deposits from other banking institutions	8,146	205
Lease liabilities	13,116	12,749
	661,969	659,303

7. Net fee and commission income

Fee and commission income:		
Loans and advances	87,909	74,743
Other fees and commissions	19,670	20,532
	107,579	95,275
Fee and commission expense:		
Other	(2,853)	(3,535)
	104,726	91,740

8. Net trading income

Net foreign exchange trading income	56,673	27,064
Net foreign exchange loss	2,625	(904)
	59,298	26,160

9. Changes in fair value of financial assets at fair value through profit or loss

Equity investments	(2,991)	(1,471)

10. Other income

Dividend income from financial assets at fair value through profit or loss	-	799
Loss on sale of financial assets at fair value through profit or loss	-	(589)
Profit on sale of property and equipment	502	-
Other sundry income	1,169	1,137
	1,671	1,347

11. Net impairment losses on loans and advances

	2022 KSh'000	2021 KSh'000
Net increase in specific provision charged to profit and loss account (Note 18(b))	489,102	340,184
Recoveries from loans and advances written off	(207,845)	(93,771)
Charge to the profit and loss account	281,257	246,413

12. Profit before tax expense

(a) Items charged

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

Employee benefits expense (Note 12(b))	219,511	209,536
Depreciation of property and equipment	10,787	21,208
Depreciation of right - of - use assets	32,745	43,552
Operating lease rentals expense	3,413	1,941
Amortisation of intangible assets	15,641	16,970

(b) Employee benefits expense

Wages and salaries	211,427	202,284
Retirement benefit costs:		
- Defined benefit scheme	7,855	7,020
- National Social Security Fund	229	232
	219,511	209,536

The average number of persons employed during the year, by category, were:

	Number	Number
Non-management	49	49
Management and administration	46	49
Total	95	98

13. Income tax expense

	2022 KSh'000	2021 KSh'000
Current income tax	90,741	19,267
Deferred tax credit (Note 24)	(33,848)	1,094
Income tax expense	56,893	20,361

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

	2022 KSh'000	2021 KSh'000
Profit before income tax	186,307	67,439
	55,892	20,232
Tax effect of:		
Income not subject to tax	(3,306)	(577)
Expenses not deductible for tax purposes	4,307	706
Income tax expense	56,893	20,361

14. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	2022	2021
Net profit attributable to shareholders	129,414	47,078
Weighted average number of ordinary shares in issue during the year ('000)	124,552	124,552
Basic earnings per share	1.04	0.38

There were no potentially dilutive shares outstanding at 31st December 2022 and 31st December 2021. Diluted earnings per share is therefore the same as basic earnings per share.

15. Cash and balances with Central Bank of Kenya

	2022 KSh'000	2021 KSh'000
Cash in hand (Note 31)	204,467	188,022
Balances with Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	413,275	438,346
Unrestricted balances (Note 31)	49,759	136,489
	667,501	762,857

The Cash Reserve Ratio is non-interest bearing and is based on the value of customer deposits adjusted in accordance with Central Bank of Kenya requirements. As at 31st December 2022 the Cash Reserve Ratio requirement was 4.25% (2021: 4.25%) of all customer deposits. These funds are not available to finance the Bank's day to day operations.

16. Deposits and balances due from banking institutions

	2022 KSh'000	2021 KSh'000
Balances with banking institutions in Kenya	558,982	298,870
Balances with banking institutions abroad	150,552	1,003,770
	709,534	1,302,640

17. Government securities at amortised cost

	2022 KSh'000	2021 KSh'000
Government Securities - Treasury bills	869,663	1,187,024
Government Securities - Treasury bonds	3,209,946	3,365,282
	4,079,609	4,552,306
Maturing:		
- Within 1 year	1,771,456	2,127,053
- Over 1 year	2,308,153	2,425,253
	4,079,609	4,552,306

Financial assets with a carrying amount of KSh 210,361,000 were held by the Central Bank of Kenya under lien as security for Letters of Credit as at end of 2022. In 2021, there was none.

The fair value of the Treasury Bonds carried at amortised cost at the balance sheet date, based on quoted prices (unadjusted) in active markets for identical assets was KSh 3,142,000,000 (2021: KSh 3,265,000,000).

18. Loans and advances to customers

	2022 KSh'000	2021 KSh'000
a) Loans and advances to customers		
Overdrafts	2,898,936	2,968,763
Commercial loans	4,982,439	4,149,764
Gross loans and advances to customers	7,881,375	7,118,527
Less: Provision for impaired loans and advances (Note 18(b))	(574,831)	(611,663)
Net loans and advances	7,306,544	6,506,864
b) Impairment losses on loans and advances		
At 1st January	611,663	470,081
Net increase in provision for impairment charged to profit and loss account (Note 11)	489,102	340,184
Interest income on impaired loans and advances	(236,109)	(198,184)
Provisions utilised during the year for write off	(289,825)	(418)
At 31st December	574,831	611,663

18. Loans and advances to customers (continued)

c) Concentration of risk

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2022 KSh'000	2022 %	2021 KSh'000	2021 %
Manufacturing	1,729,021	22	1,564,815	22
Wholesale, retail trade and hotels	4,800,910	61	4,019,544	56
Transport and communications	48,702	1	195,249	3
Agriculture	145,342	2	169,462	3
Business services	53,042	1	302,136	4
Building, construction and real estate	848,458	11	809,700	11
Social, community and personal service	255,900	2	57,621	1
	7,881,375	100	7,118,527	100

19. Financial assets at fair value through profit or loss

	2022 KSh'000	2021 KSh'000
Equities	9,739	12,729

The fair values of the equity investments are based on quoted prices (unadjusted) in active markets for identical assets (Level 1).

20 Other receivables

.

	2022 KSh'000	2021 KSh'000
Clearing account	55,911	26,922
Prepayments	59,082	57,898
Other receivables	33,511	37,735
	148,504	122,555

21. Intangible assets (software costs)

Cost		
At 1st January	71,703	71,703
Additions	1,450	-
At 31st December	73,153	71,703
Amortisation		
At 1st January	43,073	26,103
Charge for the year	15,641	16,970
At 31st December	58,714	43,073
Net book amount	14,439	28,630

The annual amortisation rate used is 33.3%.

22. Property and equipment

	Computers, copiers & fax KSh'000	Motor vehicles KSh'000	Furniture, fittings & equipment KSh'000	Total KSh'000
At 1st January 2021				
Cost or valuation	24,112	7,678	289,162	320,952
Accumulated depreciation	(19,956)	(6,112)	(251,590)	(277,658)
Net carrying amount	4,156	1,566	37,572	43,294
Year ended 31st December 2021				
Opening carrying amount	4,156	1,566	37,572	43,294
Additions	1,053	-	4,468	5,521
Depreciation charge	(1,485)	(883)	(18,840)	(21,208)
Closing carrying amount	3,724	683	23,200	27,607
At 1st January 2022				
Cost	25,165	7,678	293,630	326,473
Accumulated depreciation	(21,441)	(6,995)	(270,430)	(298,866)
Net carrying amount	3,724	683	23,200	27,607
Year ended 31st December 2022				
Cost				
Opening carrying amount	3,724	683	23,200	27,607
Additions	152	-	5,778	5,930
Disposals	(2,159)	(673)	-	(2,832)
Depreciation charge	(1,333)	(515)	(8,939)	(10,787)
Accumulated depreciation eliminated at disposal	2,159	673	-	2,832
Closing carrying amount	2,543	168	20,039	22,750
At 31st December 2022				
Cost	23,158	7,005	299,408	329,571
Accumulated depreciation	(20,615)	(6,837)	(279,369)	(306,821)
Net carrying amount	2,543	168	20,039	22,750

The annual depreciation rates used are as follows:

	Rate - %
Computers, copiers & faxes	25
Motor vehicles	25
Furniture, fittings and equipment	10 - 25

23. Right - of - use assets

	Land and buildings	
	2022	2021
	KSh'000	KSh'000
Cost		
At 1st January	250,390	148,780
Additions	32,768	101,610
At 31st December	283,158	250,390
Depreciation		
At 1st January	119,912	76,360
Depreciation charge	32,745	43,552
At 31st December	152,657	119,912
Carrying amount at 31st December	130,501	130,478

The Bank leases various offices. The leases of offices and warehouses are typically for periods of between 3 and 7 years, with no options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

	2022	2021
	KSh'000	KSh'000
Lease liabilities payments - principal	28,236	32,666
Lease liabilities payments - interest	13,116	12,749
Cash flow	41,352	45,415

For information on the related lease liabilities, see Note 27.

24. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2021: 30%)

Deferred tax assets/(liabilities), and the deferred tax charge/(credit) in the profit and loss account are attributable to the following items:

Year ended 31st December 2022	At start of year KSh'000	(Charge) to profit & loss KSh'000	At end of year KSh'000
Deferred income tax asset			
Property and equipment	30,954	(1,139)	29,815
Intangible assets	(1,313)	2,446	1,133
Right - of - use assets	(39,143)	(7)	(39,150)
Lease liabities	44,067	1,360	45,427
Staff leave accrual	782	(417)	365
Provisions for impaired loans and advances	175,456	31,605	207,061
Net deferred tax asset before allowance	210,803	33,848	244,651

Year ended 31st December 2021	At start of year KSh'000	(Charge) to profit & loss KSh'000	At end of year KSh'000
Deferred income tax asset			
Property and equipment	29,378	1,576	30,954
Intangible assets	(2,139)	826	(1,313)
Right - of - use assets	(21,726)	(17,417)	(39,143)
Lease liabities	23,384	20,683	44,067
Staff leave accrual	897	(115)	782
Provisions for impaired loans and advances	182,103	(6,647)	175,456
Net deferred tax asset	211,897	(1,094)	210,803

The deferred tax assets and liabilities relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the balance sheet

25. Deposits from customers

	2022 KSh'000	2021 KSh'000
Call deposits	2,211	3,181
Current and demand accounts	871,605	1,086,362
Savings accounts	679,409	507,614
Term deposits	8,278,489	8,645,508
	9,831,714	10,242,665

The economic sector concentrations within the customer deposits portfolio were as follows:

	2022 KSh'000	2022 %	2021 KSh'000	2021 %
Individuals	6,459,432	66	6,642,375	65
Non-profit institutions	301,721	3	298,433	3
Private companies	2,611,089	26	2,736,026	26
Insurance companies	459,472	5	565,811	6
	9,831,714	100	10,242,645	100

Included in customer deposits were deposits amounting to KSh 1,126,823,000 (2021: KSh 930,578,000) that were held as collateral for loans and advances.

26. Deposits from banks

	2022 KSh'000	2021 KSh'000
Other deposits from banks	-	100,015

27. Lease liabilities

	2022 KSh'000	2021 KSh'000
Lease liabilities	151,423	146,890
The total cash outflow for leases in the year was:		
Payments of principal portion of the lease liability	28,236	32,666
Interest paid on lease liabilities	13,116	12,749
	41,352	45,415

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 23.

28. Other payables

	2022 KSh'000	2021 KSh'000
Outstanding bankers cheques	3,444	9,058
Staff leave accrual	1,215	2,605
Sundry creditors	35,580	32,629
	40,239	44,292

29. Share capital

	No. of ordinary shares	Issued and paid up capital KSh '000	Share premium KSh '000	Shareholders' contributions pending allotment KSh'000
At 1st January 2022 and 31st December 2022	124,551,534	2,491,031	412,819	8,969
At 1st January 2021 and 31st December 2021	124,551,534	2,491,031	412,819	8,969

The total number of authorised ordinary shares is 175,000,000 (2021: 175,000,000) with a par value of KSh 20 each.

The share premium account arose on issue of shares at a premium and is not distributable.

Shareholders' contributions pending allotment

The shareholders' contributions pending allotment relates to amounts received from shareholders in the past which the Bank does not have sufficient details to make an allotment.

30. Regulatory reserve

	2022 KSh'000	2021 KSh'000
At 1st January	313,450	313,450
Transfer from retained earnings	18,339	-
At 31st December	331,789	313,450

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance represents the excess of impairment provisions determined in accordance with Prudential Regulations over the impairment provisions recognised in accordance with the Bank's accounting policy. The reserve is not distributable.

31. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2022 KSh'000	2021 KSh'000
Cash in hand (Note 15)	204,467	188,022
Unrestricted cash balances with Central Bank of Kenya (Note 15)	49,759	136,489
Placements with and loans and advances to banking institutions (Note 16)	709,534	1,302,640
	963,760	1,627,151

32. Off balance sheet contingencies and commitments

a) Contingent liabilities

In common with the banking business, the Bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties. At the year end, the contingencies were as follows:

	2022 KSh'000	2021 KSh'000
Letters of credit and acceptances	143,147	51,640
Guarantees	1,187,119	868,123
	1,330,266	919,763

Nature of contingent liabilities

i) **An acceptance** is an undertaking by a bank to pay a bill of exchange, drawn on a customer, on a specified due date. The Bank expects most acceptances to be presented and reimbursement by the customer is normally immediate.

ii) **Letters of credit** commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

iii) **Guarantees** are generally written by a Bank to support the 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.

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no material loss is anticipated.

b) Pending litigation and claims

	2022 KSh'000	2021 KSh'000
Pending litigation and claims	-	80,915

The Bank had a number of pending claims and litigation cases at end of the year. The directors, having taken necessary professional consultations, are of the opinion that the above claims are unlikely to lead to any material financial loss to the Bank.

32. Off balance sheet contingencies and commitments (continued)

c) Commitments

Undrawn formal stand-by facilities, credit lines and other commitments to lend at 31st December 2022 totalled Ksh 690,736,000 (2021: KSh 655,605,000).

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

33. Related party transactions

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities (Note 32) include guarantees and letters of credit of KSh 7,465,000 (2021: KSh 19,965,000) which have been issued to related companies.

The following transactions were carried out with related parties:

a) Outstanding loans and advances

	Directors		Related companies	
	2022	2021	2022	2021
	KSh'000	KSh'000	KSh'000	KSh'000
At 1st January	78,876	58,330	692,036	1,194,381
Advances during the year	44,258	105,492	3,485,245	3,434,611
Interest charged during the year	6,791	4,868	103,420	137,547
Repayments during the year	(67,801)	(89,814)	(3,646,522)	(4,074,503)
At 31st December	62,124	78,876	634,179	692,036
Contingent liabilities	**7,465**	**-**	**19,965**	**4,565**

As at 31 December 2022, loans and advances to staff amounted to KSh.109,010,000 (2021: KSh.35,474,000).

The loans and advances to related parties are performing and are fully secured. No provisions have been recognised in respect of the loans and advances to directors, related parties or staff.

b) Deposits

	Directors		Related companies	
	2022	2021	2022	2021
	KSh'000	KSh'000	KSh'000	KSh'000
At 1st January	436,457	437,373	75,077	17,227
Deposits received during the year	5,331,249	4,805,814	5,139,095	3,643,132
Interest paid during the year	18,349	17,421	2,392	3,618
Withdrawals during the year	(5,307,065)	(4,824,151)	(5,147,021)	(3,588,900)
At 31st December	478,990	436,457	69,543	75,077

c) Directors' remuneration (key management compensation)

Directors' remuneration		
- Fees	5,900	6,052

34. New and revised financial reporting standards

The Bank has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2022.

IFRS 17 Insurance Contracts (issued in May 2017 and amended in June 2020)

The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.The Company does not issue insurance contracts.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)

The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

Amendments to IAS 8 titled Definition of Accounting Estimates (issued in February 2021)
The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IFRS 16 titled Covid-19-Related Rent Concessions Beyond 30th June 2021 (issued in March 2021)

The previous amendment to IFRS 16 permitted the practical expedient to be applied only to reductions in lease payments that did not extend beyond 30th June 2021.This amendment, applicable to annual periods beginning on or after 1st April 2021 allows the practical expedient to be applied to reductions in lease payments that do not extend beyond 30th June 2022.

Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)

The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

Amendments to IFRS 9 and IFRS 17 titled Initial application of IFRS 17 and IFRS 9 - Comparative Information (issued in December 2021)

34. New and revised financial reporting standards (continued)

The amendments, applicable on initial application of IFRS 17, add a transition option relating to comparative information about financial assets presented on initial application of IFRS 17.

Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)

The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)

The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

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