# Bank of Baroda (Kenya) Ltd.

Regulated by the Central Bank of Kenya.

YOUR MOST TRUSTED BANK
70
YEARS

# ANNUAL REPORT & FINANCIAL STATEMENTS 2022

Transforming lives through banking technology.

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# TRANSFORMING LIVES THROUGH BANKING TECHNOLOGY

***We aspire to provide first rate financial service and outperform competitors with unprecedented level of convenience and access to easy-to-use mobile applications and services.***

***We are becoming a technology company in our own right. This level of technological agility, with flexible services, is the essence of digital transformation.***

***Digital transformation has become people-centric, focusing on improving lives and businesses. We aspire to see a world where people, especially women are empowered to capture opportunities and build resilience through our financial services. It is therefore, one of our driving forces to put women's financial inclusion at the centre of everything we do at Bank of Baroda.***

## Digital Banking's Contribution To Transforming Lives.

Digital banking is part of the broader context for the move to online banking, where banking services are delivered over the internet and mobile. Digital banking leverages technology to deliver banking products to enhance accessibility and affordability of the services.

Basic financial services such as the ability to safely store, send, and transact money in the form of mobile money have reached millions of Kenyans at unprecedented speed over the past decade with the presence of M-pesa, Airtel Money amongst other mobile payment services. This appears to have the potential to directly boost economic well-being.

Digital banking makes it safer and easier to send money up-country with bank to M-pesa, Airtel Money amongst other mobile payment service features, and fees are much lower than fees for wire-transfers or postal services — so more money makes it home, and people in rural communities are less likely to go hungry. In Kenya, it's overwhelmingly common for people working in the city to send much of their salary back to support their rural family, which is a huge driver of digital banking adoption.

## Women Empowerment

Financial inclusion is an important step in development, as access to finances can help the women to build money and lift themselves out of poverty.

Access to accounts and savings and payment mechanisms increases savings, empowers women and boosts productive investment and consumption. Access to credit also has positive effects on consumption as well as on employment status and income and on some aspects of mental health and outlook. Greater access to financial services for both individuals and firms may help reduce income inequality and accelerate economic growth.

Thus, financial inclusion can provide fiscal fuel for economic growth and is significant for achieving inclusive growth. Digital finance becomes imperative so that more women are brought into the ambit of banking and empowerment. Bank of Baroda takes this opportunity to digitally transform and empower the lives of women and work hand in hand with various bodies to create awareness and bring about financial literacy among women, there will be greater empowerment.

# ABOUT THE BANK

Bank of Baroda (Kenya) Ltd. started its journey on 14th December 1953. The first Branch of the Bank was opened at Mombasa in Kenya. Today Bank has a total of -14- branches spanning across Kenya. The Bank's vision is to be the most respected and prefered Bank, striving to enhance stakeholders value with concern, care and competence. The Bank is offering all types of Banking services for its customers since 1953 and has been contributing towards socio economic up-liftment of the country.

The Bank has been able to place itself as a dominant player in the Kenyan Banking Industry. It is committed to deliver in all vital sectors of the economy through lending to various sectors viz. Manufacturing, Trading, Agriculture etc. The Bank has been placed in the category Tier II Banks with a good public image and customer confidence.

# GENERAL INFORMATION

## Principal shareholder
Bank of Baroda, India - 86.70%

## Country of Incorporation and domicile
Kenya

## Registered office
Baroda House, 90, Muthithi Road
P.O. Box 30033-00100, Nairobi, Kenya
Telephone: (020) 2248402, 2248412
Website: www.bankofbarodakenya.co.ke
E-Mail: ho.kenya@bankofbaroda.com

## Principal correspondent banks
Bank of Baroda - Mumbai, India
Bank of Baroda - New York, U.S.A.
Bank of Baroda - London, U.K.
Bank of Baroda - Brussels, Belgium
Bank of Baroda - Sydney, Australia
Bank of India - Tokyo, Japan
Bank of Montreal - Toronto, Canada
Union Bank of Switzerland - Zurich, Switzerland
Standard Chartered Bank - Frankfurt

## Principal officers

| | |
|---|---|
| Mr. Vinay Kumar Rathi | Managing Director |
| Mr. Ravi Pathak | Head - Operations & Executive Director |
| Mr. Akshay Goyal | Head - Risk |
| Mr. Isaiah Omae | Head - Compliance |
| Mr. Andrew W. Lukuyani | Head - Credit |
| Mr. Winston Sore | Head - Internal Audit |
| Ms. Ranjeeta Kumari | Head - Treasury |
| Ms. Maria Gorett Makokha | Head - Treasury (Back Office) |
| Mr. Patrick Sila | Head - Finance |
| Mr. Lusiji Patrick Kombe | Head - Information Technology |
| Mr. Dhirajlal N. Shah | Ambassador |
| Mr. Avishek Banerjee | Head - Marketing |
| Mr. Jasobanta Kar | Branch Head - Digo Rd Branch, Mombasa |
| Mr. Jitendra Kumar | Branch Head - Thika Branch |
| Mr. Satish Kumar | Branch Head - Kisumu Branch |
| Mr. Anil Kumar Ramanjinappa | Branch Head - Sarit Centre Branch |
| Mr. Vivek Kumar Srivastava | Branch Head -Industrial Area, Nairobi |
| Mr. Vemuri Murali Krishna | Branch Head - Eldoret Branch |
| Mr. Jitendra Sahoo | Branch Head - Nakuru branch |
| Mr. Vijayakumar Borugula | Branch Head - Nairobi Main Branch, Koinange Street |
| Mr. Laban Mwangi Macharia | Branch Head - Kakamega Branch |
| Mr. Punit Kumar | Branch Head - Nyali Branch, Mombasa |
| Mr. Richard Ngahu | Branch Head - Meru Branch |
| Mr. Amardeep Singh | Branch Head - Diamond Plaza, Nairobi |
| Mr. Dheeraj . | Branch Head - Mombasa Road Branch, Nairobi |
| Mr. Chandan Kumar | Branch Head - Muthithi Road Branch, Nairobi |

## Independent auditor
Grant Thornton
Certified Public Accountants (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986-00100
Nairobi

## Legal advisors
Hamilton Harrison & Mathews Advocates
A.B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates
Gathaiya & Associates
L. G Menezes

## Principal valuers
Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited
Chrisca Valuers

## Company secretary
Africa Registrars
Certified Public Secretaries (K)
Kenya-Re Towers, Upperhill
P.O. Box 1243-00100
Nairobi

## HEAD OFFICE, NAIROBI

Baroda House, 90, Muthithi Road,
P.O.Box 30033-00100 ,Nairobi, Kenya

Telephone : +254 (020) 224 8402/2248412

Website: www.bankofbarodakenya.co.ke
E-mail: ho.kenya@bankofbaroda.com

## BRANCH NETWORK

**Digo Road Branch, Mombasa**
P. O. Box 90260-80100
Plot No.XXV/61, Kizingo, Mombasa
Telephone : (041) 2224507/8,2226211
E-mail: digoro@bankofbaroda.com

**Thika Branch, Thika**
Kenyatta Avenue,
P.O. Box 794-01000, Thika
Telephone : +254 (067) 222379/2230048
E-mail: thika@bankofbaroda.com

**Kisumu Branch, Kisumu**
Central Square,
P.O. Box: 966-40100, Kisumu
Telephone : (057) 2021768/74, 2020303
E-mail: kisumu@bankofbaroda.com

**Eldoret Branch, Eldoret**
Chardor Patel Plaza, Moi Street,
P.O. Box 1517 -30100, Eldoret
Telephone : +254 (053) 2063341
E-mail: eldoret@bankofbaroda.com

**Mombasa Road Branch, Nairobi**
Somak House (Ground Floor),
Next Airtel Building, Mombasa Road,
P.O. Box No. 18948 – 00500
Nairobi
Telephone : +254 (020) 6829118/6829119
E-mail: mombasaroad@bankofbaroda.com

**Nairobi Main Branch, Nairobi,**
Baroda House, 29 Koinange Street,
P.O.Box 30033-00100, Nairobi
Telephone : +254 (20) 2220575/2226416
E-mail: nairobi@bankofbaroda.com

**Industrial Area Branch, Nairobi**
Industrial Area, Enterprise Road,
P.O. Box 18269-00500 , Nairobi
Telephone : +254 (20) 6555971/6555945
E-mail: indust.nairobi@bankofbaroda.com

**Sarit Center Branch, Nairobi**
Sarit Centre, Lower Ground Floor,
P.O. Box 886-00606,Nairobi
Telephone : +254 (20) 3752590/91
E-mail: sarit@bankofbaroda.com

**Diamond Plaza Branch, Nairobi**
First Floor, Diamond Plaza, Masari Road,
P.O. Box: 13709-00800, Nairobi
Telephone : +254 (020) 3742257/3742263
E-mail: dp.nairobi@bankofbaroda.com

**Muthithi Road Branch**
First Floor, Baroda House
90 Muthithi Road, Westlands
P.O. Box 30033, 00100
Nairobi
Telephone: (020)2248402/2248412
E-mail: muthithi@bankofbaroda.com

**Kakamega Branch, Kakamega**
Kenyatta Avenue,
P.O. Box 2873, Kakamega
Telephone : +254 (056) 2111777
E-mail: kakamega@bankofbaroda.com

**Meru Branch, Meru**
Brown Rock Building, Njuri Ncheke Street,
P.O. Box No. 2762-60200,Meru
Telephone : +254 (020) 2341342/
064-3130623
E-mail: meru@bankofbaroda.com

**Nakuru Branch, Nakuru**
Vickers House, Kenyatta Avenue,
P.O. Box 12408-20100, Nakuru
Telephone : +254 (051) 2211718/9
E-mail: nakuru@bankofbaroda.com

**Nyali Branch, Mombasa**
Ground Floor, Texas Tower, Nyali Road ,
P.O. Box: 95450-80106,Mombasa
Telephone : +254 (041) 4471103/4471104
E-mail: nyali@bankofbaroda.com

Bank of Baroda (Kenya) Ltd.

# BANK AT A GLANCE

YOUR MOST TRUSTED BANK 70 YEARS

**TOTAL BUSINESS**
**Kes. 227.563 Billion**
Kes. 20.03B Growth

**RETURN ON EQUITY**
**263%**

**TOTAL DEPOSITS**
**Kes. 163.33 Billion**
Kes. 13.96B Growth

**CAPITAL ADEQUECY**
**30.95%**

**TOTAL ADVANCES**
**Kes. 64.233 Billion**
Kes. 6.07B Growth

**SHARE HOLDERS FUND**
**Kes. 28.840 Billion**

**TOTAL ASSETS**
**Kes. 193.775 Billion**
Kes. 13.39B Growth

**PROFIT BEFORE TAX**
**Kes. 7.056 Billion**

**RETAIL GROWTH**
**44.9%**

**BOOK VALUE PER SHARE**
**Kes. 291.39**

**TOTAL GROWTH IN DEPOSIT ACCOUNT OPENING - 45.9%**

**GROWTH IN MOBILE BANKING USERS 51%**

**GROWTH IN MOBILE TRANSACTIONS 69%**

## Banking that gets better with age.

THINK BUSINESS BANKING AWARDS 2022

- Best Bank to borrow from — WINNER
- The most efficient bank — 1ST RUNNER UP
- Best bank in SME banking — 1ST RUNNER UP
- Overall best bank in Kenya — 2ND RUNNER UP
- Best bank in Tier-II — 2ND RUNNER UP
- The most customer-centric bank. — 2ND RUNNER UP

# COMPANY INFORMATION

## Board Committees

The board committees as at the date of this report comprises:

### Board Audit Committee

**Composition:**
Three directors (Non-executive)

**Main function:**
Strengthening the control environment, financial reporting and auditing function.

**Frequency of meetings per annum (minimum):**
Quarterly

**Chairperson:**
Mr. Stephen Lugalia

**Members:**
Prof. Florence Nyabiage Ondieki -Mwaura
Mr. Ramesh Chunilal Mehta

### Board Credit Committee

**Composition:**
Two directors (Executive)
Three directors (Non-executive)

**Main function:**
Appraisal and approval of credit applications and reviewing credit portfolio.

**Frequency of meetings per annum (minimum):**
Quarterly

**Chairperson:**
Mr. Ramesh Chunilal Mehta

**Members:**
Mr. Vinay Kumar Rathi
Mr. Ravi Kant Pathak
Prof. Florence Nyabiage Ondieki -Mwaura
Mr. Stephen Lugalia

### Board Risk Management Committee

**Composition:**
One director (Executive)
Three directors (Non-executive)

**Main function:**
Ensuring quality, integrity and reliability of the Bank's risk management function.

**Frequency of meetings per annum (minimum):**
Quarterly

**Chairperson:**
Prof. Florence Nyabiage Ondieki -Mwaura

**Members:**
Mr. Vinay Kumar Rathi
Mr. Ramesh Chunilal Mehta
Mr. Stephen Lugalia

# MANAGING DIRECTOR`S REPORT

Dear Stakeholders,

I am happy to present the Annual Report for the year 2022 on behalf of the Board of Directors. The report aims to showcase the progress of our business and the Bank's commitment in fulfilling our mission of being a true partner for enhancing the value of all stakeholders.

Given the importance of the economy and the banking sector, I would like to provide a brief overview of the current state of affairs. While 2022 was expected to be the year of economic recovery globally, after the COVID-19 pandemic that wreaked havoc in 2020 and 2021, the onset of the Russian-Ukrainian war in February 2022 brought that optimism to a halt. The world events had a significant negative impact on the Kenyan economy, which was in the process of recovering.

The announcement of the war led to a panic sell-off of stocks by foreign investors, who sought refuge in government securities or fixed income in developed nations, which is commonly referred to as a flight-to-safety strategy. Additionally, there was uncertainty surrounding the Kenyan elections, soaring drought and an increase in interest rates.

Despite the external factors that have impacted the businesses, Bank remained steadfast in its strategies. The Bank remains committed to providing quality services to it's customers and generating value for all stakeholders.

## Kenya Economy & Banking Outlook

The economy of Kenya advanced by 4.8% year-on-year in the third quarter of 2022 compared to 7.60% of last year, this was the fifth consecutive quarter of slowing growth and the weakest economic expansion since the first quarter of 2021.

The Kenyan economy experienced lower growth rates compared to similar periods in 2021 but remained close to pre-pandemic levels. Growth slowed in the first two quarters, primarily due to a slow-down in economic activities ahead of the general elections held in August 2022. As seen in previous election cycles, business and investment decisions were delayed pending the outcome of the polls.

According to KNBS, the overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 9.1% in December 2022 compared to 5.7% of December 2021. The rise in inflation was largely due to increase in prices of commodities under food and non-alcoholic beverages (13.8%); transport (13.0%) and housing, water, electricity, gas and other fuels (6.2%) between December 2021 and December 2021.

During the year, the Monetary Policy Committee (MPC) raised the Central Bank Rate (CBR) from 7.50% to 8.75% due to sustained inflationary pressures, elevated global risks, and their potential impact on the domestic economy. The average interbank interest rate increased to 5.39% in December 2022, compared to 5.06% in June. All rates showed an upward trend in the second half of the year, with short-term loan and deposit rates growing at a higher rate than long-term ones. Despite increased global uncertainties, volatile international oil prices, and the effects of a stronger U.S. dollar, the foreign exchange market remained relatively resilient in the second half of 2022. As of the end of December 2022, CBK foreign exchange reserves stood at USD 7,378 million, equivalent to 4.13 months of import cover.

According to research agency M/s Cytonn, the GDP growth outlook for Kenya is projected to grow by 5.0% in 2023. Inflation is expected to average 6.6% in 2023, remaining within the government target range of 2.5% - 7.5%. GDP growth for 2023 is projected to continue expanding at a slower pace, within a range of 4.8% - 5.2%. This growth is expected to be supported by the continued economic recovery, the expected rebound in sectors such as Transport, Accommodation, and Agriculture, especially with the introduction of farm input subsidies. However, risks abound, including the high risk of debt distress, erratic weather conditions that may adversely affect the agricultural sector, which is the largest contributor to Kenya's GDP, elevated inflationary pressures, currency depreciation, and restrictive monetary policy.

Despite the risks, we remain optimistic that the Kenyan economy will continue to improve and grow. We are committed to supporting this growth through our various financial services and investment initiatives.

## Performance Of The Bank & Major Achievements

The Bank has undertaken a number of strategic initiatives to address the challenges faced in the market. Our management team has remained vigilant and proactive in anticipating any potential volatility in order to protect the interests of our stakeholders, while ensuring that we maintain our momentum towards achieving our objectives. Over the course of the year, we saw a significant increase in our Gross Deposits, which grew by Kshs 13.958 Bn, reaching a total of Kshs 163.330 Bn as of December 2022, up from Kshs 149.372 Bn in December 2021. In addition, our CASA (Current Account Savings Account) accounts opening saw a remarkable growth of 32% during the year, highlighting our continued focus on delivering value to our customers.

In 2022, the Bank experienced significant growth in gross advances which increased by Kshs 6.078 Bn to close at Kshs 64.233 Bn as at December 31, 2022 compared to Kshs 58.165 Bn as at December 31, 2021. The Total Advances grew by 10.4%, while Retail Advances saw an even more impressive growth rate of 44.9%. Furthermore, the Bank's Total Business increased by Kshs 20.03 Bn, reaching Kshs 227.563 Bn compared to Kshs 207.573 Bn as at December 31, 2021. These numbers reflect the Bank's successful efforts to increase its business base and expand its customer demographic.

The Bank's Profit Before Tax was Kshs. 7.06Bn for the period ended December 31, 2022, as compared to Kshs 6.68Bn for the period ending December 31, 2021, translating to a growth of 5.6%. Going forward, the Bank is well-positioned to sustain this positive momentum and deliver value to its customers and shareholders.

Throughout the year, the Bank has been committed to enhancing its digital services to its customers with more convenient and efficient banking solutions. Notably, the Bank achieved a 51% increase in Mobile Banking users and a 69% growth in Mobile Banking transactions. Additionally, an upgraded Internet Banking solution was introduced, which saw a growth in transactions by 28.2%. To further improve the in-branch customer experience, the Bank also implemented Q-Management System and Digital Signage Solution. Paperless solutions for various internal approvals made bank's decision-making process faster. These initiatives demonstrate the Bank's commitment to digital transformation and its dedication to meeting the evolving needs of its customers in a rapidly changing digital landscape

Your Bank launched innovative products, including the revamped BOB Vuna Recurring Deposit and Insurance Premium Finance (IPF) that received a good response from the market. The BOB Vuna product achieved an impressive growth rate of 107% during the year, indicating the customers' trust and confidence in the Bank's products and services.

During the year, the Bank signed MOUs with -3- leading auto dealers - M/S Simba Corp, M/s Deluxe Motors and M/s Tata Africa Holdings Kenya Limited for financing of Mahindra, Ashok Leyland and Tata Commercial Vehicles respectively. These partnerships have enabled the Bank to offer customized financing options to customers in the commercial vehicle segment. In line with its commitment towards sustainability, the Bank has implemented various go-green initiatives. As part of this, several internal approvals have been shifted to paperless solutions, contributing to the reduction of the Bank's carbon footprint. Additionally, customers are being encouraged to use digital banking platforms to conduct their banking transactions, reducing the need for physical visits or print outs.

## Awards And Accolades During The Year

During the year, the Bank achieved notable success and recognition at the "Think Business Banking Awards", receiving a total of six awards. These awards included the Winner of "Best Bank to Borrow from", 1st Runner Up for "The Most Efficient Bank", and 2nd Runner Up for "Overall Best Bank in Kenya", "The Best Bank in Tier II category", "The Most Customer Centric Bank", and "Best Bank in SME Banking". The Bank's success in these categories is a testament to its commitment to delivering high-quality financial products and services to its customers while maintaining a customer-centric approach. The Bank is dedicated to continuously improving and meeting the evolving needs of its customers in the Kenyan market

## Way Farward

The Bank is committed to enhancing its services and improving customer experience through the introduction of upgraded features to its products and systems. In line with this, the Bank is set to launch an E-Commerce facility for debit cards and prepaid cards, providing customers with more flexibility and convenience in their transactions.

Furthermore, the Bank is actively working towards establishing a dedicated call center team that will cater to all customer queries, providing prompt and efficient assistance.

To further improve accessibility and reach, the Bank is also planning to open its first "Sales Service Centre" at the Imaara Mall along Mombasa Road. The proposed branch, named "Baroda World", will provide customers with a state-of-the-art banking experience, with a focus on convenience and comfort.

As part of its commitment to nurturing talent and developing future leaders, the Bank is providing comprehensive leadership training to its senior staff members. By investing in its employees, the Bank aims to groom and prepare them for the challenges of the future, enabling them to deliver superior service to customers and drive the Bank's growth and success

The Bank has achieved a significant milestone by being the first bank in Kenya to obtain permission to open INR Nostro accounts. Currently, the Bank is in discussions with the regulators to understand the intricacies of the scheme. Once the details are finalized, the Bank plans to roll out the product, which will bring immense benefits to our customers

## Acknowledgements

I would like to express my sincere gratitude to all our stakeholders, including the Kenyan government, regulators, and most importantly, our customers, for their unwavering support throughout the year. I also want to extend my heartfelt thanks to our retired Chairman, Managing Director, fellow Directors, and dedicated staff members for their remarkable contributions to making this bank a value-based organization that is both people-centric and performance-driven.

To our esteemed shareholders, I want to express my deepest appreciation for your continued trust and confidence in our bank. We remain committed to enhancing your shareholder value and seizing every opportunity to achieve continuous growth in business and excellence in our operations and services

I want to express my sincere gratitude to the entire team for their exceptional work and unwavering commitment to reliability. Your dedication and trustworthiness are truly remarkable, and I am grateful to have such a talented and dependable team. Your efforts have not gone unnoticed, and I am constantly impressed by your hard work and achievements. From meeting tight deadlines to delivering high-quality results, you have proven time and time again that reliability is at the core of everything you do. Thank you for being such an integral part of our organization's success!

Yours sincerely,

**Mr. Vinay Kumar Rathi**
Managing Director
Bank of Baroda (Kenya) Ltd.

# BOARD OF DIRECTORS

**Mr. Vinay Kumar Rathi** Managing Director

**Appointment Date:** February 3, 2022 | **Age:** 49 | **Nationality:** Indian

**Qualifications:**
MBA - Banking & Finance, CAIIB, B. Com, PGDBFM

**Other Directorships:**
None

**Percentage of individual share holding in the bank:** Two shares held in trust

**Mr. Ramesh Chunilal Mehta** Director Non-Executive

**Appointment Date:** March 28, 2017 | **Age:** 75 | **Nationality:** Kenyan

**Qualifications:**
BBM

**Other Directorships:**
Western Emporium (1975) Co. Limited

**Percentage of individual share holding in the bank:** 882,400 shares held in joint names

**Mr. Ravi Kant Pathak** Director Executive

**Appointment Date:** October 6, 2020 | **Age:** 45 | **Nationality:** Indian

**Qualifications:**
MSc. Maths, PGDCA, MCA, CAIIB, Associate member of IIBF

**Other Directorships:**
None

**Percentage of individual share holding in the bank:** Two shares held in trust

**Mr. Stephen Lugalia** Director Non-Executive
**Appointment Date:** March 15, 2021 | **Age:** 65 | **Nationality:** Kenyan
**Qualifications:**
B. Com (Accounting), FCPAK, CPSK,
Certified Trainer in Corporate Governance
Certified Board Evaluator
**Other Directorships:**
Laser Insurance Brokers Limited
Jumbolink communications Limited
FGB Solutions Limited
GA Life Insurance Co. Limited
Metropol Corporation Limited
**Percentage of individual share holding in the bank:** None

**Prof. Florence Nyabiage Ondieki -Mwaura** Director Non-Executive

**Appointment Date:** August 18, 2022 | **Age:** 50 | **Nationality:** Kenyan

**Qualifications:**
Phd (Development studies), M Phil (Development Studies),
BSC (Horticulture)

**Other Directorships:**
Environmental Health & Safety (EHS) Limited

**Percentage of individual share holding in the bank:** None

## OTHER DIRECTORS WHO SERVED DURING THE YEAR

### Mr Vikramaditya Singh Khichi Chairman*

**Appointment Date:** September 2, 2019 | **Age:** 61 | **Nationality:** Indian

**Qualifications:**
B. Sc; MBA -Finance & Marketing, CAIIB; Associate of Insurance Institute of India

**Other Directorships:**
Bank of Baroda (India) -Executive Director
Baroda Asset Management (India) Limited
BOB Financial Solutions Limited
India First Life Insurance Company Limited
Indo Zambia Bank Limited

**Percentage of individual share holding in the bank:** None

*Resigned on 30/07/2022

### Mr. Saravanakumar A. Managing Director*

**Appointment Date:** December 8, 2017 | **Age:** 52 | **Nationality:** Indian

**Qualifications:**
B. E (Agr), DCO, MBA -Banking & Finance, CAIIB, PGOFM, DTIRM

**Other Directorships:**
None

**Percentage of individual share holding in the bank:** None

***Resigned on 04/03/2022**

### Dr. Winifred N Karugu Director Non-Executive*

**Appointment Date:** June 3, 2016 | **Age:** 66 | **Nationality:** Kenyan

**Qualifications:**
Phd. Economics, Msc. Agriculture (Econ), Bsc. Agriculture

**Other Directorships:**
Kargua Construction
Mirie Cousins Limited
Erian Heights Limited

**Percentage of individual share holding in the bank:** None

***Resigned on 03/06/2022**

# CORPORATE GOVERNANCE

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

## 1. Respective Responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditor. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

## 2. Board Of Directors

The composition of the Board is set out on page 4. The Board is chaired by Director (Non-Executive) and comprises of the Managing Director, one other Director (Executive) and Four Directors (Non-Executive).

All Directors (Non-Executive) are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 11. The Directors are responsible for the development of internal controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, the Board meetings were held on the following dates:

- March 4, 2022
- May 17, 2022
- September 28, 2022
- November 28, 2022

The attendance of individual directors is as follows:

| Name Of Director | Period | Meetings held during their tenure | Meetings attended |
|---|---|---|---|
| Mr. Vinay Kumar Rathi | 03 February 2022 to 31 December 2022 | 4 | 4 |
| Mr. Ramesh Chunilal Mehta | 01 January 2022 to 31 December 2022 | 4 | 4 |
| Mr. Ravi Kant Pathak | 01 January 2022 to 31 December 2022 | 4 | 4 |
| Mr. Stephen Lugalia | 01 January 2022 to 31 December 2022 | 4 | 4 |
| Prof. Florence Nyabiage Ondieki Mwaura | 18 August 2022 to 31 December 2022 | 2 | 2 |
| Mr. Vikramaditya Singh Khichi* | 01 January 2022 to 30 July 2022 | 2 | 2 |
| Mr. Saravanakumar A.** | 01 January 2022 to 04 March 2022 | 1 | 1 |
| Dr. Winifred N. Karugu*** | 01 January 2022 to 03 June 2022 | 2 | 2 |

Since resigned on *30.07.2022 **04.03.2022 ***03.06.2022

The board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committee reporting to the board. The composition of the sub-committee is set out on page 5.

## 3. Board Evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good Corporate Governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2022. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge. The Board Performance evaluation covered the following:

### (a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

### (b) The Board chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2022 under his Chairmanship. The Chairman was effective during the year.

### (c) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director observes performance of fellow Directors. All the directors understand their responsibilities and are effective in carrying out their responsibilities

## 4. BOARD COMMITTEES

### Board Audit Committee

The committee comprises three Directors (Non-Executive). The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

**Board Credit Committee**

The committee is chaired by a Director (Non-Executive) and comprises of the two Executive Directors, two Non-Executive Directors and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

**Board Risk Management Committee**

The committee, chaired by a Director (Non - Executive) and comprising Managing Director and two other Directors (Non-Executive), meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

## 5. Management Committees

**Asset and Liability Committee (ALCO)-** The committee, chaired by the Managing Director, comprising Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including perational, liquidity, maturity, interest rate and exchange rate risks.

**Executive Committee (EC)-** The committee, chaired by Director (Executive) and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

**Business Continuity Planning Committee (BCPC)-** The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to identify business function groups, Business Impact Analysis (BIA), Prioritization, fixation of Recovery Time Objectives (RTO) / Recovery Point Objective (RPO) for the function groups and identifcation of the threats to which the Business Processes are exposed and the assessment of the potential damage and disruption associated with these threats realised.

**Information & Communication Technology Committee (ICTC)-** The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on half yearly basis to oversee and report the effectiveness of strategic Information & Communication Technology (ICT) planning, the ICT Budget and actual expenditure, and the overall ICT perfromacne to the Board of Directors and Senior Management periodically.

**Recovery Committee (RC)-** The committee, chaired by the Managing Director, comprising of Director (Executive) and various departmental heads, meets on monthly basis to look into advances accounts where recovery proceedings have been initiated by the Bank. The Committee gives direction on the steps taken for speedy and effective recovery in non performing loans accounts. Potential non performing loans accounts are also discussed in the committee.

**Operational Risk Management Committee (ORMC)-** The Committee is chaired by the Managing Director and various departmental heads meeting on a quarterly basis with the responsibility of reviewing and approving new bank products and services. It also ensures review of new policies renewal of existing policies as per each policy sunset clause. Output from the ORMC is shared with the Board Risk Management Committee.

**Management Compliance Committee (MCC)-** The Committee chaired by the Managing Director and various departmental heads meeting on a quarterly basis and tasked with the responsibility of discussing the state of the Bank's compliance with all regulatory and internal policy requirements ensuring the Bank is not in contravention with any statutory requirements nor does it violate its own internal policies. Findings in the committee are shared with the Board Risk Management Committee.

**Directors' Remuneration-** The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

**Relationship with Shareholders-** The Bank is a private limited liability company with the details of the main shareholder set out on the general information page. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the local newspapers.

**Mr. Vinay Kumar Rathi**
**Managing Director**
March 17, 2023

# DIRECTORS` REPORT

The directors submit their report together with the audited annual report and financial statements for the year ended December 31, 2022.

## 1. Principal activities

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

There have been no material changes to the nature of the bank's business from the prior year.

## 2. Economic review and activities

The Monetary Policy Committee met on November 23, 2022 and noted the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy. The Committee concluded that there was scope for a further tightening of the monetary policy in order to anchor inflation expectations. In view of these developments, the MPC decided to raise the Central Bank Rate (CBR) from 8.25 percent to 8.75 percent.

The usable foreign exchange reserves remained adequate at USD 7,439 million (4.17 months of import cover) as at December 2022.

This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover

## 3. Performance appraisal

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year.

Total deposits reached to Kshs 163.33 billion as at December 31, 2022 with a YoY growth of 9.34% over balance of Kshs 149.37 as at December 31, 2021.

Bank launched new products linked with external benchmarking like SOFR/SONIA for better ALM management.

The gross advances continued to move upwards and closed at Kshs 64.233 billion as at December 31, 2022 recording a growth of 10.43% over last year's figure (Kshs. 58.166 billion).

Total retail advance reached to Kshs 4.78 billion as at December 31, 2022 with a YoY growth of 44.95%.

## 4. Future outlook

Propose to open Sales Service Centre at the Imaara Mall along Mombasa Road.

Launch of new products and re-alignment of products for CASA, retail deposit and advances

## 5. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

## 6. Dividends

The directors proposed a dividend of Kshs. 30.00 per share (2021: Kshs. 30.00 per share) amounting to Kshs. 2.969 Billion (2021: Kshs. 2.969 Billion).

## 7. Directors

The directors of the bank during the year and to the date of this report are as follows:

| Directors | Nationality |
|---|---|
| Mr. Vinay Kumar Rathi | Indian |
| Mr. Ramesh Chunilal Mehta | Kenyan |
| Mr. Ravi Kant Pathak | Indian |
| Mr. Stephen Lugalia | Kenyan |
| Prof. Florence Nyabiage Ondieki -Mwaura | Kenyan |
| **Other directors who served during the year** | |
| Mr. Vikramaditya Singh Khichi* | Indian |
| Mr. Saravanakumar A.** | Indian |
| Dr. Winifred N. Karugu*** | Kenyan |

Since resigned on *30.07.2022, ** 04.03.2022 and ***03.06.2022

## 8. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

## 9. Statement of disclosure to the company's auditor

With respect to each person who is a director on the day that this report is approved:

- There is, so far as the person is aware, no relevant audit information of which the bank's auditor is unaware; and
- The person has taken all the steps that he/she ought to have taken as a director to be aware of any relevant audit information and to establish that the bank's auditor is aware of that information

## 10. Terms of appointment of the auditor

Grant Thornton continued in office in accordance with the bank's Articles of Association and Section 719 (2) of the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap. 488). The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

## 11. Approval of financial statements

The financial statements were approved at a meeting by the board of directors on March 17, 2023 and were signed on its behalf by:

By order of the Board

Africa Registrars

Company Secretary

## Statement of Directors' responsibility

The Kenyan Companies Act, 2015 requires the directors to prepare annual report and 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 maintains proper accounting records that are sufficient to show and explain the transactions of the bank and disclose, with reasonable accuracy, the financial position of the bank. The directors are also responsible for safeguarding the assets of the bank, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

• designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual report and financial statements that are free of material misstatement, whether due to fraud or error;
• selecting suitable accounting policies and applying them consistently; and
• 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

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

The annual report and financial statements set out on pages 18 to 55, which have been prepared on the going concern basis, were approved by the directors on March 17, 2023 and were signed on its behalf by:

**Mr. Vinay Kumar Rathi**
Managing Director

**Ravi Kant Pathak**
Director(Non-Executive)

# INDEPENDENT AUDITOR`S REPORT

## Independent Auditor`s Report

## To the Shareholders of Bank of Baroda (Kenya) Limited

## Report on the Audit of the Annual Report And Financial Statements

### Opinion

We have audited the accompanying annual report and financial statements of Bank of Baroda (Kenya) Limited (the bank) set out on pages 18 to 55, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Kenya) Limited as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual report and financial statements of the current period. These matters were addressed in the context of our audit of the annual report and financial statements as a whole, and in forming Our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

### Other information

The directors are responsible for the other information. The other information comprises the directors' report which we obtained prior to the date of this Auditor's Report and the Annual report which is expected to be made available to us after that date. The other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained during 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.

### Responsibilities of the directors and those charged with governancefor the Annual Report And Financial Statements

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

In preparing the annual report and 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.

Those charged with governance are responsible for overseeing the bank's financial reporting process.

### Auditor's responsibilities for the audit of the Annual Report And Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual report and 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 International Standards on Auditing 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 annual report and financial statements.

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

- Identify and assess the risks of material misstatement of the annual report and 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 the directors.

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

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual report and financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory matters as prescribed by the Kenya Companies Act, 2015

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that in our opinion the information given in the report of the directors on page 12 is consistent with the annual financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Alfred Siele, Practicing Certificate No. 1690

Grant Thornton

For and on behalf of
**Grant Thornton LLP**
**Certified Public Accountants (Kenya)**
**Nairobi**

**B/108/1222/___/0323/AUD**


Bank of Baroda (Kenya) Ltd.
Insurance
Premium
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BANKING
SOLUTIONS
FOR YOUR
SME
Grow and achieve great success for your business with Bank of Baroda, the bank that understands your challenges.

BARODA
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Internet Banking
Internet
Banking
Reimagined

# FINANCIAL
# STATEMENTS

# FINANCIAL STATEMENTS

## Statement of Profit or Loss and Other Comprehensive Income

| | Note(s) | 2022 Kshs '000 | 2021 Kshs '000 |
|---|---|---|---|
| Interest income | 4 | 19,546,306 | 17,321,246 |
| Interest expense | 5 | (9,972,093) | (9,088,080) |
| **Net interest income** | | **9,574,213** | **8,233,166** |
| Fees and commission income | | 169,464 | 186,181 |
| Foreign exchange trading income | | 91,296 | 153,205 |
| Other income | 4 | 342,510 | 831,587 |
| Operating expenses | 6 | (1,848,939) | (1,739,165) |
| Expected credit loss | 10 | (1,236,760) | (888,943) |
| **Operating profit:** | | **7,091,784** | **6,776,031** |
| Finance cost | 11 | (35,201) | (92,532) |
| **Profit before tax** | | **7,056,583** | **6,683,499** |
| Taxation | 12 | (1,849,913) | (1,483,960) |
| **Profit for the year** | | **5,206,670** | **5,199,539** |
| **Other comprehensive income:** | | | |
| Fair value gains on investments in financial instruments measured at FVOCI | 13 | (2,347,127) | (1,064,738) |
| Deferred tax | 24 | 117,356 | - |
| **Other comprehensive income for the year net of taxation** | | **(2,229,771)** | **(1,064,738)** |
| **Total comprehensive income** | | **2,976,899** | **4,134,801** |
| Earnings per share | | 52.61 | 52.54 |
| **Dividend** | | | |
| Proposed dividend for the year | | **2,969,150** | **2,969,150** |
| Dividend per share (Kshs. per share) | | **30.00** | **30.00** |

The accounting policies on pages 23 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

## Statement Of Financial Position

| | Note(s) | 2022 Kshs '000 | 2021 Kshs '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand | 14 | 323,410 | 373,043 |
| Balances with Central Bank of Kenya | 15 | 6,512,268 | 8,170,344 |
| Government securities | 16 | 118,125,228 | 112,526,497 |
| Deposits and balances due from other banking institutions | 17 | 6,228,039 | 2,750,278 |
| Other assets | 18 | 611,933 | 543,882 |
| Loans and advances(net) | 19 | 60,591,657 | 54,628,212 |
| Investment securities | 20 | 19,529 | 19,562 |
| Tax receivable | 12 | 61,805 | 79,325 |
| Right of use asset | 22 | 347,991 | 404,159 |
| Intangible assets | 21 | 7,388 | 1,770 |
| Property and equipment | 23 | 676,833 | 717,267 |
| Deferred tax | 24 | 269,079 | 166,734 |
| **Total Assets** | | **193,775,161** | **180,381,073** |
| **Equity and Liabilities** | | | |
| **Liabilities** | | | |
| Customer deposits | 25 | 163,329,798 | 149,371,985 |
| Deposits and balances due to other banking institutions | 26 | 375,220 | 547,761 |
| Other liabilities | 27 | 893,446 | 748,913 |
| Lease liabilities | 27 | 336,903 | 466,992 |
| Current tax payable | 12 | - | 413,381 |
| **Total Liabilities** | | **164,935,367** | **151,549,032** |
| **Equity** | | | |
| Share capital | 28 | 1,979,434 | 1,979,434 |
| Fair value reserve | 29 | (2,243,008) | (13,237) |
| Retained income | | 26,134,218 | 23,896,694 |
| Proposed dividends | 31 | 2,969,150 | 2,969,150 |
| Total Equity | | **28,839,794** | **28,832,041** |
| **Total Equity and Liabilities** | | **193,775,161** | **180,381,073** |
| **Off balance sheet items** | | | |
| Letters of credit, guarantees and acceptances | | 4,820,390 | 5,524,108 |
| Bills sent for collection | | 3,001,665 | 1,684,895 |
| Forwards, spots, swaps and options | | 416,195 | 173,891 |
| | | **8,238,250** | **7,382,894** |

The annual financial statements and the notes on pages 17 to 55, were approved by the board of directors on March 17, 2023 and were signed on its behalf by:

| | | | |
|---|---|---|---|
| | | | Africa Registrars |
| **Mr. Vinay Kumar Rathi** | **Mr. Ravi Kant Pathak** | **Prof. Florence Ondieki** | **African Registrars** |
| Managing Director | Director | Director | Company Secretary |

The accounting policies on pages 23 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

## Statement of Changes in Equity

| | Share capital Kshs '000 | Fair value reserve Kshs '000 | Total reserves Kshs '000 | Retained income Kshs '000 | Proposed dividends Kshs '000 | Total equity Kshs '000 |
|---|---|---|---|---|---|---|
| **Balance as at January 01, 2022** | **1,979,434** | **(13,237)** | **(13,237)** | **23,896,698** | **2,969,150** | **28,832,045** |
| Total comprehensive income for the year | - | **(2,229,771)** | **(2,229,771)** | **5,206,670** | - | **2,976,899** |
| **Total adjusted balance** | - | **(2,229,771)** | **(2,229,771)** | **5,206,670** | - | **2,976,899** |
| Prior Tax refund write-off | - | - | - | - | - | - |
| Dividends paid | - | - | - | - | (2,969,150) | (2,969,150) |
| Dividends proposed | - | - | - | (2,969,150) | 2,969,150 | - |
| **Total changes** | - | - | - | **(2,969,150)** | - | **(2,969,150)** |
| **Balance at December 31, 2022** | **1,979,434** | **(2,243,008)** | (2,243,008) | **26,134,218** | **2,969,150** | **28,839,794** |
| **Balance at January 01, 2021** | **1,979,434** | **1,051,501** | 1,051,501 | **21,666,309** | **1,979,434** | 26,676,676 |
| Total comprehensive income for the year | - | (1,064,738) | (1,064,738) | 5,199,539 | - | 4,134,801 |
| **Total adjusted balance** | - | **(1,064,738)** | **(1,064,738)** | **5,199,539** | - | **4,134,801** |
| Dividends paid | - | - | - | - | **(1,979,434)** | **(1,979,434)** |
| Dividends proposed | - | - | - | **(2,969,150)** | **2,969,150** | - |
| Total changes | - | - | - | **(2,969,150)** | **989,716** | **(1,979,434)** |
| **Balance at December 31, 2021** | **1,979,434** | **(13,237)** | (13,237) | **23,896,698** | **2,969,150** | **28,832,043** |

## Statement of cash flows

| Cash flows from operating activities | Note(s) | 2022 Kshs '000 | 2021 Kshs '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | 10,628,379 | 17,511,429 |
| Finance cost | 11 | (35,201) | (92,532) |
| Tax paid | 12 | (2,248,767) | (1,231,042) |
| **Net cash from operating activities** | | **8,344,410** | **16,187,855** |
| **Cash flows used in investing activities** | | | |
| Purchase of property and equipment | 24 | (45,482) | (175,650) |
| Sale of property and equipment | 24 | 57,068 | 195,656 |
| Purchase of intangible assets | | (8,220) | - |
| Purchase of government securities | | (6,969,783) | (12,624,927) |
| Purchase of investment Securities | | 33 | (2) |
| **Net cash used in investing activities** | | **(6,966,384)** | **(12,604,923)** |
| **Cash flows used in financing activities** | | | |
| Payment on lease liabilities | | (155,803) | (134,522) |
| Dividends paid | | (2,929,934) | (1,979,434) |
| **Net cash used in financing activities** | | **(3,085,737)** | **(2,113,956)** |
| Net movement in cash and cash equivalents for the year | | **(1,707,711)** | **1,468,976** |
| Cash in hand at the beginning of the year | 14 | 373,043 | 314,675 |
| Balance with the Central Bank of Kenya at the beginning of the year | 15 | 8,170,344 | 6,759,736 |
| **Total Cash and cash equivalents at end of the year** | 14&15 | **6,835,676** | **8,543,387** |

# Climate Related Risk Management

Bank of Baroda (the bank) is conscious that climate change is already affecting the financial sector. This impact on the sector, especially banks will continue to increase in the medium to long term, but its exact timing and extent remain unknown. The greatest challenge still remains to understand how climate change may affect the bank's operations, plans, and finances due to this uncertainty. The bank realizes that it is critical to analyze how climate-related risks and opportunities may evolve and the potential repercussions under various scenarios to appropriately include the potential effects onto planning processes.

The bank plays a key economic and financial intermediary role by allocating capital from owners to borrowers through lending and/or investing to facilitate the borrowers' various economic activities which contribute to the nation's economic development. These economic activities play a significant role in accumulation of greenhouse gas (GHG) emissions in the atmosphere which results in global warming and thus climate change implications. To trigger changes in capital flows and signals for all sectors, the bank acknowledges and endorses the need for as well as the pace required for decarbonization. It is thus inevitable to infer that as a bank we have played a role in enhancing the GHG emissions by our financing activities in the various economic sectors. Green House Gas emissions vary by customers as well as by the sectors, therefore analyzing the bank's exposure to the different sectors will aid the us in assessing and measuring the level of financed emissions as well as developing a roadmap on how we can reduce our contribution in the continuous increase of GHG emissions.

In line with the Central Bank Guidelines on Climate Related Risk Management, the bank has commenced periodic reporting and disclosures on Climate Risk, through the Task Force on Climate Related Financial Disclosures (TCFD). The bank is committed to continuously refining information disclosures for periodic reporting as well as in the annual reports to enhance transparency to stakeholders on the initiatives undertaken to reduce climate impact on the bank's operations and business growth.

## ESTABLISHING THE BANK'S BASELINE

The bank undertook three steps towards establishing the baseline from which it is able to inform action and measure progress. These steps include; scenario analysis contextualized to the banks realities, financed emissions quantification for the bank as at 2022, and internal operations carbon footprints for the banks head office as at 2023.

**1. Climate Related Exposure Assessment Scenarios**

Scenario analysis is a proven method for creating a flexible strategic plan of action. Scenario analysis for climate-related banking risks and opportunities is a relatively new area.. Generally, the bank is keen to take up this orientation of scenario analysis as the basis of informing the bank's strategic sustainability planning, action and reporting.

**2. Milestones 2022/23**

Bank of Baroda Kenya has undertaken actions and initiatives toward embedding Climate Related Risk Management as detailed here below;

**i. Governance**

The mandate of the Board Risk Committee has been reviewed to enhance the oversight role on the climate related risks across the bank. This includes updated Committee's Terms of Reference to factor in climate risks oversight in their purview. In addition, several key policies have been improved to entrench climate related risk identification and management. The aforesaid updated policies have been socialized and approved by the Board of Directors.

**ii. Strategy**

The Board and Management have updated the Mid-term Strategic Plan to embed climate related risks and opportunities in the strategy implementation. The strategic imperative will aid the bank to be cognizant of emerging risks, but more importantly, positioning the bank to harness climate related opportunities to meet its strategic objectives.

**iii. Risk Management**

The Bank has reviewed the entire risk management policy framework to embed climate related risks and impacts across the business. All risk profiles inherent in the business have been updated to embrace the impact of climate change for effective risk identification, assessment, monitoring and management.

**iv. Metrics and Targets**

The bank has established the carbon footprint levels of the its operations to assess the direct and indirect Green House Gas emissions levels. In addition, the bank has made great efforts to assess the financed emissions in the credit portfolio to identify its contribution to the national Green House Gas emissions levels. Both metrics will continue to be enhanced as more data becomes available and reliable. Further, Management will use these metrics to establish initial targets towards emissions reduction in both its operations, lending and investing activities. Over and above compliance with regulatory guidelines the bank's disclosure is aimed at managing climate related risk, enhancing transparency and accountability for its stakeholders. Reporting financed emissions will demonstrate the climate impact of the bank's activities and its approach to managing and minimizing the same whilst contributing to the Paris Agreement objectives on the financial sector.

As we address the overarching challenge of data availability and reliability, the bank's information disclosure on climate related risks and opportunities as well as approaches undertaken by the bank's leadership will continue to be enhanced.

Management will include a section in the year end annual reports on climate related risks exposures, management initiatives undertaken and contribution to the Paris Agreement among other industry, local and global initiatives aimed at climate risks management.

# ACCOUNTING POLICIES

# ACCOUNTING POLICIES

## Corporate information

Bank of Baroda (Kenya) Limited is a private limited company incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The bank is licensed under the Banking Act (Cap 488) and provide banking, financial and related services. The bank operates 14 branches within Kenya.

## 1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual report and financial statements are set out below.

### 1.1 Basis of preparation

**a) Statement of compliance**

The annual report and financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual report and financial statements and the Kenyan Companies Act, 2015 and the Banking Act.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these annual report and financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

The annual report and financial statements have been prepared on the historic cost convention as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below.

**b) Functional currency**

The finacial statements are presented in Kenya Shillings (KES) which is also the company's functional currency.

These accounting policies are consistent with the previous period.

**c) Going Concern**

As at the date of theis report, the directors are not aware of any material uncertainities related to events or conditions that may cast doubt upon the bank sability to continue as a going concern

### 1.2 Critical judgements and accounting estimates

The preparation of annual report and financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future years affected.

**Critical judgements in applying accounting policies**

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

**Taxes**

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

**Impairment of loans and advances**

The bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

**Fair value of financial instruments**

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 in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

**Key sources of estimation uncertainty**

**Impairment of financial assets**
The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

**Fair value estimation**
Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

**Useful lives of property, plant and equipment**
Useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

**Provisions**
Provisions are inherently based on assumptions and estimates using the best information available.

## 1.3 Property and equipment

Property and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property and equipment is recognised as an asset 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.

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset.
Expenditure incurred subsequently for major services, additions to or replacements of parts of property and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property and equipment have been assessed as follows:

Property and equipment are depreciated on the straight line basis and reducing balance basis to write down the cost of assets, or the revalued amounts, to its residual value over its estimated useful life using the following annual rates:

| Items | Depreciation Method | Rate % and method of depreciation |
|---|---|---|
| Buildings | Straight line | Over the remaining lease period |
| Furniture and fittings | Reducing balance | 12.5 |
| Motor vehicles | Reducing balance | 25 |
| IT equipment | Straight line | Over 3 years |
| Leasehold improvements | Straight line | Over 10 years |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

## 1.4 Intangible assets

An intangible asset is recognised when:
i) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

ii) the cost of the asset can be measured reliably.
Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

- Computer software with a useful life of 5 years

## 1.5 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the bank, as applicable, are as follows:

Financial assets which are debt instruments:
- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or

- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or

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

**Financial liabilities:**
- Amortised cost; or
The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

**Debt instruments at fair value through other comprehensive income**
**Classification**
The bank holds certain investments in bonds which are classified and subsequently measured at fair value through other comprehensive income (note 13).

They have been classified in this manner because the contractual terms of these debt instruments give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the objectives of the bank's business model is achieved by both collecting the contractual cash flows on these instruments and by selling them.

**Recognition and measurement**
These debt instruments are recognised when the bank becomes a party to the contractual provisions. They are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at fair value.

Even though they are measured at fair value, the bank determines the amortised cost of each instrument as if they were measured at amortised cost. The difference, at reporting date, between the amortised cost and the fair value of the debt instruments, is recognised in other comprehensive income and accumulated in equity in the fair value reserve.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Debt instruments denominated in foreign currencies**
When a debt instrument measured at fair value through other comprehensive income is denominated in a foreign currency, the amortised cost and the fair value (carrying amount) of the investment is determined in the foreign currency. The amortised cost and fair value is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any foreign exchange gains or losses arising on the amortised cost of the instrument are recognised in profit or loss in the foreign exchange trading income. The remaining foreign exchange gains or losses relate to the valuation adjustment and are included in other comprehensive income and are accumulated in equity in the fair value reserve.

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial risk management note (note 3).

**Derecognition**
Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

On derecognition of a debt instrument at fair value through other comprehensive income, the cumulative gain or loss on that instrument which was previously accumulated in equity in the fair value reserve is reclassified to profit or loss

**Loans and advances to customers**
**Classification**
Loan and advances to customers are classified as financial assets and subsequently measured at amortised cost (note 19). They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the bank's business model is to collect the contractual cash flows on loan and advances to customers.

Recognition and measurement
Loan and advances to customers are recognised when the bank becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Loans and advances to customers denominated in foreign currencies**
When loan and advances to customers are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in Foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management (note 3)

**Impairment**
The bank recognises a loss allowance for expected credit losses on loan and advances to customers. The amount of expected credit losses is updated at each reporting date.

The bank measures the loss allowance for loan and advances to customers which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL). The loss allowance for all other loan and advances to customers is measured at lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk on these receivables has not increased significantly since initial recognition, then the loss allowance for those receivables is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL to loan and advances to customers which do have a significant financing component, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

**Significant increase in credit risk**
In assessing whether the credit risk on a receivable or group of receivables has increased significantly since initial recognition, the bank compares the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

**Definition of default**
For purposes of internal credit risk management purposes, the bank consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the bank considers that default has occurred when a receivable is more than 30 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**Measurement and recognition of expected credit losses**
The bank makes use of a provision matrix as a practical

expedient to the determination of expected credit losses on loan and advances to customers. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of loan and advances to customers, through use of a loss allowance account. The impairment loss is included in Impairment losses on loans and advances in profit or loss as a movement in credit loss allowance (note 9).

**Write off policy**

The bank writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the bank recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**Credit risk**

Details of credit risk are included in the loan and advances to customers note (note 19) and the financial risk management note (note 3).

**Derecognition**

Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

**Customer deposits**

**Classification**

Customer deposits (note 26) and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

They are recognised when the bank becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

Customer deposits expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 3 for details of risk exposure and management thereof.

Customer deposits denominated in foreign currencies

When customer deposits are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the foreign exchange trading income.

Details of foreign currency risk exposure and the management thereof are provided in the financial risk management note (note 3).

**Derecognition**

Refer to the derecognition section below of the accounting policy for the policies and processes related to derecognition.

**Cash and cash equivalents**

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

**Balances with Central Bank of Kenya**

Balances with Central Bank of Kenya are stated at carrying amounts which is deemed to be fair value.

**Derecognition**

**Financial assets**

The bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the bank continues to recognise the financial asset.

**Financial liabilities**

The bank derecognises financial liabilities when, and only when, the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**Reclassification**

**Financial assets**

The bank only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

**Financial liabilities**

Financial liabilities are not reclassified.

## 1.6 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax assets and liabilities**
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Tax expenses**
Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

(i) a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or

(ii) a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

## 1.7 Leases
The bank assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is identified, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

**Bank as lessee**
A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets.

For these leases, the bank recognises the lease payments as an operating expense (note 7) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the bank has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the bank is a lessee are presented in note 22 Leases (bank as lessee).

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

Lease payments included in the measurement of the lease liability comprise the following:
(i) fixed lease payments, including in-substance fixed payments, less any lease incentives;
(ii) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
(iii) the amount expected to be payable by the bank under residual value guarantees;
(iv) the exercise price of purchase options, if the bank is reasonably certain to exercise the option;
(v) lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
(vi) penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 6). The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 11).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:
(i) there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
(ii) there has been a change in the assessment of whether the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
(iii) there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
(iv) there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
(v) a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to

**Right-of-use assets**
Lease payments included in the measurement of the lease liability comprise the following:
(i) the initial amount of the corresponding lease liability;
(ii) any lease payments made at or before the commencement date;
(iii) any initial direct costs incurred;

(iv)any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; (v) less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

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

For right-of-use assets which are depreciated over their useful lives

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting

Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

## 1.8 Identification and measurement of impairment of financial assets

At each reporting date the bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

## 1.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

## 1.10 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

**Retirement benefit costs**

The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The bank has no further payment obligations once the contributions have been paid. The company's obligations to the schemes are recognised in the Statement of Profit or Loss and Other Comprehensive income.

The bank and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are etermined by local stature and the bank's contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year they fall due.

**Employee entitlements**

Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

The estimated monetary liability for employee's accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

## 1.11 Provisions and contingencies

Provisions are recognised when:

(i) the bank has a present obligation as a result of a past event;

(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

## 1.12 Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises net interest income and non interest income. Income is recognised on an accrual basis in the period in which it is earned.

**(i) Interest and similar income and expense**

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit and loss. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income and expense are recognised in profit or loss on the accrual basis. Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

**(ii) Fees and commission income**

Fees and commission income is recognised on an accrual basis when the service is provided. This income comprises appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

**(iii) Foreign exchange trading income**

Foreign exchange trading income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized exchange gains or losses.

## 1.13 Translation of foreign currencies

**Foreign currency transactions**

A foreign currency transaction is recorded, on initial recognition in Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

(i) foreign currency monetary items are translated using the closing rate;

(ii) non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

(iii) non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

## 1.14 Impairment for non-financial assets

The carrying amounts of the bank's non-financial assets, other than deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cashgenerating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 1.15 Dividends

Proposed dividends are disclosed as a separate component of equity until declared. Dividends are recognised as a liabilities in the period in which they are approved by the bank's shareholders.

## 1.16 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 profit or loss.

## 1.17 Statutory loan loss reserve

These are provisions that have been appropriated from Retained Earnings. This applies if provisions computed under the Risk Classification of Assets and Provisioning Guidelines is in excess of impairment losses computed under the International Financial Reporting Framework.

## 1.18 Interest expense

Interest for all interest-bearing financial liabilities are recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

# NOTES TO THE **FINANCIAL** STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

**Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1**

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2022 annual report and financial statements.

The impact of the amendment is not material.

**Reference to the Conceptual Framework: Amendments to IFRS 3**

The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 rather than to the IASC's Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 Provisions, Continent Liabilities and Contingent Assets or IFRIC 21 Levies. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the Acquisition date. The amendment further clarifies that contingent assets of acquirees share not be recognised as part of the business combination.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2022 annual report and financial statements.

The impact of the amendment is not material.

**Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9**

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2022 annual report and financial statements.

The impact of the amendment is not material.

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

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2022 annual report and financial statements.

The impact of the amendment is not material.

**Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37**

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2022 annual report and financial statements.

The impact of the amendment is not material.

### 2.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 January 2023 or later periods:

**Lease liability in a sale and leaseback**

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The effective date of the amendment is for years beginning on or after January 1, 2024.

It is unlikely that the amendment will have a material impact on the company's annual report and financial statements.

**Initial application of IFRS 17 and IFRS 9 - Comparative information**
A narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9.

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual report and financial statements.

**Classification of Liabilities as Current or Non-Current - Amendment to IAS 1**
The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual report and financial statements.

**IFRS 17 Insurance Contracts**
The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after January 1, 2023.

## 3. Financial instruments and risk management

## Financial risk management

### Overview

The bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice Risk management function is carried out by the bank's risk management department under policies approved by the Board of Directors. The bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

### Capital management

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

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

The bank monitors the adequacy of its capital using 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 weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

### Credit risk weighted assets

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 e.g. 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 it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. 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 statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes statutory loan loss provisions and non-dealing investments.

### Market risk weighted assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential regulations.

### Operational risk weighted assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table below summarizes the composition of the regulatory capital.

The table below summarizes the composition of the regulatory capital.

| | Balance sheet nominal amount | | Risk weighted amount | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Cash in hand | 323,410 | 373,043 | - | - |
| Balances with Central Bank of Kenya | 6,512,268 | 8,170,344 | - | - |
| Governement securities | 118,125,228 | 112,526,497 | - | - |
| Deposits and balances due from other banking institutions | 6,228,039 | 2,750,278 | 1,245,608 | 550,056 |
| Other assets | 611,933 | 464,556 | 611,933 | 464,556 |
| Loans and advances to customers | 60,591,657 | 54,628,212 | 53,295,707 | 48,909,034 |
| Investment securities | 19,529 | 19,562 | 19,529 | 19,562 |
| Current tax receivable | 61,805 | 79,325 | 61,805 | - |
| Right of use asset | 347,991 | 404,160 | 347,991 | 404,160 |
| Intangible assets | 7,388 | 1,770 | 7,388 | 1,770 |
| Property and equipment | 676,833 | 717,267 | 676,833 | 717,266 |
| Deferred tax | 269,079 | 166,727 | 269,079 | 166,727 |
| | 193,775,161 | 180,301,741 | 56,535,874 | 51,312,455 |
| Off balance sheet position | 8,238,250 | 7,382,894 | 7,900,099 | 7,003,645 |
| Less: Market Risk qualifying Assets included in above | (19,529) | (19,562) | (19,529) | (19,562) |
| **Adjusted credit risk weighted assets** | **201,993,882** | **187,665,073** | **64,416,444** | **58,296,539** |
| **Market risk** | | | | |
| **Total Market Risk Weighted Assets** Equivalent | **17,810,591** | **24,401,534** | **17,810,591** | 24,401,534 |
| Operational Risk Equivalent Assets | 17,323,407 | 14,209,745 | 17,323,407 | 14,209,745 |
| **Total market risk capital charge** | **35,133,999** | **38,611,279** | **35,133,999** | **38,611,279** |
| **Total market risk weighted assets** | **237,127,881** | **226,276,351** | **99,550,442** | **96,907,817** |

| | 2022 Kshs '000 | 2021 Kshs '000 |
|---|---|---|
| Capital adequacy requirement calculation | | |
| **Tier I -Core Capital** | | |
| Add: Paid-up ordinary share capital | 1,979,434 | 1,979,434 |
| Retained earnings and other reserves | 23,896,698 | 21,666,305 |
| Net after tax profits for the current year | 5,206,670 | 5,199,539 |
| Less: Deferred Tax Asset | (269,079) | (166,734) |
| **Total Tier I -Core Capital** | **30,813,722** | **28,678,544** |
| Supplementary Capital | - | - |
| **Total Capital** | **30,813,722** | **28,678,544** |
| **Total deposit liabilities** | **163,329,798** | **149,371,985** |

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

| | Actual Ratios | | Minimum Requitement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Core capital to total risk weighted assets | 30.95% | 29.98% | 10.50% | 10.50% |
| Total capital to total risk weighted assets | 30.95% | 29.98% | 14.50% | 14.50% |
| Core capital to deposit liabilities | 18.87% | 19.24% | 8.00% | 8.00% |

**Credit risk**

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the bank.

**Measurement of credit risk**

**- Loans and advances**

In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:

- The probability of default by the borrower/client on their contractual obligations;
- Current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
- The likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IFRS 9 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management.

The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

**- Investments**

For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

**- Risk limit control and mitigation policies**

The bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to 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.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

**- Collateral**

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

**- Credit-related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Letters of credit (which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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.

**- Impairment and provisioning policies**

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IFRS 9 and the Prudential Guidelines to determine the amount of impairment.

**- Exposure to credit risk**

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 60.95% (2021: 62.41%) of Bank`s total assets; 31.27% (2021:30.30%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- Share of Normal and Watch Accounts is 89.1% (2021: 89.53%) of the loans and advances portfolio is categorized out
- Watch Accounts of 14.7% (2021: 18.35%) are considered to be past due but not impaired.
- Loans and advances portfolio share of 10.9% (2021: 10.47%) are considered to be past due and impaired.
- Most of the loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. Additionally, the loans and advances are adequately secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

**Liquidity risk**

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The 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 management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits. The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 79.7% (2021: 81.9%) during the year.

The table overleaf analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

| At December 31, 2022 | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash in hand | 323,410 | - | - | - | - | **323,410** |
| Balances with Central Bank of Kenya | 215,117 | - | - | - | 6,297,151 | **6,512,268** |
| Government securities | 11,954,481 | 6,722,088 | 941,642 | 3,791,761 | 94,715,256 | **118,125,228** |
| Deposits and balances due from other banking institutions | 6,228,039 | - | - | - | - | **6,228,039** |
| Other assets | (130,363) | 172,663 | 61,806 | 120,715 | 387,112 | **611,933** |
| Loans and advances to customers | 29,686,674 | 1,518,107 | 2,381,700 | 4,122,142 | 22,883,034 | **60,591,657** |
| Investment securities | - | - | - | - | 19,529 | **19,529** |
| Intangible assets | - | - | 1,478 | 1,478 | 4,433 | **7,388** |
| Right of use asset | 347,991 | - | - | - | - | **347,991** |
| Property and equipment | - | - | 88,440 | - | 588,393 | **676,833** |
| Deferred tax | - | - | - | - | 269,079 | **269,079** |
| **Total assets** | **48,687,155** | **8,412,858** | **3,475,066** | **8,036,096** | **125,163,987** | **193,775,161** |
| **Liabilities and shareholders' equity** | | | | | | |
| Customer deposits | 62,429,373 | 28,615,951 | 53,472,962 | 18,477,517 | 333,995 | **163,329,798** |
| Deposits due to other banking institutions | 254,640 | - | 120,581 | - | - | **375,220** |
| Lease Liabilities | - | - | - | - | 336,903 | **336,903** |
| Other liabilities | 425,427 | 404,189 | - | 63,830 | - | **893,446** |
| Shareholders' equity | 2,969,150 | (2,243,008) | 5,206,670 | - | 22,906,982 | **28,839,794** |
| **Total liabilities and equity** | **66,078,590** | **26,777,133** | **58,800,213** | **18,541,347** | **23,577,879** | **193,775,161** |
| **Net liquidity gap as at December 31, 2022** | **(17,391,435)** | **(18,364,275)** | **(55,325,147)** | **(10,505,251)** | **101,586,108** | **-** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **At December 31, 2021** | | | | | | |
| Total assets | 41,235,838 | 5,762,943 | 6,868,595 | 15,975,571 | 110,458,794 | **180,301,741** |
| Total liabilities and equity | 67,598,767 | 30,812,135 | 58,666,950 | 1,963,968 | 21,259,921 | **180,301,741** |
| **Net liquidity gap as at December 31, 2021** | **(26,362,929)** | **(25,049,192)** | **(51,798,355)** | **14,011,603** | **89,198,873** | **-** |

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

### Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies.

The bank is exposed to various risks associated with the effects of fluctuation 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

The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

| Cash flow interest rate risk At December 31, 2022 | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 3 years | Over 3 years | Non Interest Bearing | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash in hand | 323,410 | - | - | - | - | - | **323,410** |
| Balances with Central Bank of Kenya | 215,117 | - | - | - | - | 6,297,151 | **6,512,268** |
| Government securities | 11,954,481 | 6,722,088 | 941,642 | 3,791,761 | 94,715,256 | - | **118,125,228** |
| Deposits and balances due from other banking institutions | 6,228,039 | - | - | - | - | - | **6,228,039** |
| Other assets | - | - | - | - | - | 611,933 | **611,933** |
| Loans and advances to customers | 29,686,674 | 1,518,107 | 2,381,700 | 4,122,142 | 19,241,628 | 3,641,406 | **60,591,657** |
| Investment securities | - | - | - | - | - | 19,529 | **19,529** |
| Intangible assets | - | - | - | - | - | 7,388 | **7,388** |
| Right of use asset | - | - | - | - | - | 347,991 | **347,991** |
| Property and equipment | - | - | - | - | - | 676,833 | **676,833** |
| Deferred tax | - | - | - | - | - | 269,079 | **269,079** |
| **Total assets** | **48,407,721** | **8,240,195** | **3,323,342** | **7,913,903** | **113,956,884** | **11,933,116** | **193,775,161** |
| **Cash flow interest rate risk** | | | | | | | |
| **Liabilities and shareholders' equity** | | | | | | | |
| Customer deposits | 51,573,731 | 28,615,951 | 53,472,962 | 18,477,517 | 333,995 | 10,855,642 | **163,329,798** |
| Deposits due to other banking institutions | 254,640 | - | 120,581 | - | - | - | **375,220** |
| Lease Liabilities | - | - | - | - | 336,903 | - | **336,903** |
| Other liabilities | - | 404,189 | - | 63,831 | - | 425,426 | **893,446** |
| Shareholders' equity | - | - | - | - | - | 28,839,794 | **28,839,794** |
| **Total liabilities and equity** | **51,828,370** | **29,020,140** | **53,593,542** | **18,541,348** | **670,897** | **40,120,862** | **193,775,161** |
| **Interest sensitivity gap as at 31/12/2022** | **(3,420,649)** | **(20,779,945)** | **(50,270,200)** | **(10,627,445)** | **113,285,987** | **(28,187,746)** | **-** |
| **At December 31, 2021** | | | | | | | |
| Total assets | 41,929,112 | 5,608,682 | 5,412,088 | 15,866,317 | 98,277,342 | 13,208,200 | **180,301,741** |
| Total liabilities and equity | 55,458,045 | 30,825,372 | 51,462,362 | 1,963,968 | 583,330 | 40,008,664 | **180,301,741** |
| **Interest sensitivity gap as at 31/12/2021** | **(13,528,933)** | **(25,216,690)** | **(46,050,274)** | **13,902,349** | **97,694,012** | **(26,800,464)** | **-** |

The tables below summarise the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

| **2022** | **K Sh** | **USD** | **GBP** | **Euro** |
|---|---|---|---|---|
| Government securities | 12.20% | - % | - % | - % |
| Deposits and balances due from banking institutions | 6.52% | 1.35% | - % | - % |
| Loans and advances to customers | 12.58% | 7.96% | 6.86% | 7.16% |
| Customer deposits | 7.75% | 1.58% | 7.75% | - % |
| Deposits and balances due to banking institutions | 9.61% | - % | - % | - % |

| **2021** | **K Sh** | **USD** | **GBP** | **Euro** |
|---|---|---|---|---|
| Government securities | 12.02% | - % | - % | - % |
| Deposits and balances due from banking institutions | 6.52% | 1.35% | - % | - % |
| Loans and advances to customers | 11.68% | 7.30% | 4.72% | 6.23% |
| Customer deposits | 7.29% | 1.51% | 7.27% | - % |
| Deposits and balances due to banking institutions | 7.15% | - % | - % | - % |

**Interest rate risk sensitivity**

At 31 December 2022, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

| | **2022 Kshs `000** | **2021 Kshs `000** |
|---|---|---|
| Effect on interest income - increase | (87,391) | 849,295 |
| Effect in interest expense - (increase) | (71,502) | (428,540) |
| **Net effect on profit after tax - increase** | **(158,894)** | **420,755** |

**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. The position is reviewed on a daily basis by management.

The significant foreign currency positions are detailed below:

| At 31 December 2022 | USD | GBP | Euro | Others |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Bank balances | 26,715 | 3,477 | 6,424 | - |
| Balances with Central Bank of Kenya | 147,011 | 37,158 | 26,707 | 4,241 |
| Deposits due from other banking institutions | 1,404,027 | 2,397,015 | 63,455 | 163,469 |
| Loans and advances to customers | 15,530,790 | 1,306,720 | 239,334 | - |
| **Total assets** | **17,108,543** | **3,744,370** | **335,920** | **167,710** |
| **Liabilities and shareholders' equity** | | | | |
| Customer deposits | 18,799,907 | 3,690,837 | 233,916 | - |
| Deposits due to other banking institutions | 123,374 | 65,633 | - | 186,213 |
| **Total liabilities and equity** | **18,923,281** | **3,756,470** | **233,916** | **186,213** |
| **Net statement of financial position gap** | **(1,814,738)** | **(12,100)** | **102,004** | **(18,503)** |
| Off balance sheet net notional position | 71,292 | - | - | 30,489 |
| **At December 31, 2021** | | | | |
| Total assets | 13,949,619 | 2,992,904 | 352,572 | 53,353 |
| Total liabilities and equity | 14,841,338 | 2,867,239 | 351,132 | 15,997 |
| **Net statement of financial position gap** | **(891,719)** | **125,665** | **1,440** | **37,356** |

**Market risk**

**Market risk is the risk that changes in the market prices,** which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management for management of market risk rests with the Assets & Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of the 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 portfolios also consist of foreign exchange and equity risks arising from the bank's available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below:

**- ALCO review:**

ALCO meets on an adhoc basis to review the following:

- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

**- Review by the treasury department:**

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

**Operational risk**

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

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

**Risk measurement and control**

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

**Foreign exchange risk sensitivity**

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

| **2022** | **USD** | **GBP** | **EURO** | **Others** | **Total** |
|---|---|---|---|---|---|
| Effect on profit - Increase / (decrease) | **44,778** | **359** | **(2,678)** | **6** | **42,465** |
| **2021** | **USD** | **GBP** | **EURO** | **Other** | **Total** |
| Effect on profit - Increase / (decrease) | **22,003** | **(22,140)** | **11,843** | **(86)** | **11,620** |

**Price risk sensitivity**

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

The table below summarises the impact on increase in the market price on the Bank's equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

| | **Impact on other comprehensive income** | |
|---|---|---|
| | **2022** | **2021** |
| Effect of increase | 327,600 | 312,000 |

| Figures in Kenyan Shillings ('000) | 2022 | 2021 |
|---|---|---|
| **4. Interest income** | | |
| Revenue from contracts with customers | 5,995,292 | 4,957,302 |
| Loans and advances to customers | 13,436,528 | 12,222,181 |
| Government securities | 114,486 | 141,763 |
| **Deposits and balances due from banking institutions** | **19,546,306** | **17,321,246** |
| **Disaggregation of revenue from contracts with customers** | | |
| The bank disaggregates revenue from customers as follows: | | |
| **Timing of revenue recognition** | | |
| **Over time** | | |
| Placements with other banks | 114,486 | 141,763 |
| | **114,486** | **141,763** |
| **Over time** | | |
| Government securities | 13,436,528 | 12,222,181 |
| Loans and advances to customers | 5,995,292 | 4,957,302 |
| | **19,431,820** | **17,179,483** |
| | **19,546,306** | **17,321,246** |
| **4. Other income** | | |
| Recoveries of advances previously impaired | 279,995 | 718,922 |
| Dividend income | 1,020 | 682 |
| Gain on disposal of property and equipment | 52,539 | - |
| Securities trading income | 8,636 | 111,680 |
| Miscellaneous income | 206 | 188 |
| Rental income | 114 | 115 |
| Total other income | **342,510** | **831,587** |
| **5. Interest expense** | | |
| Term deposits | 9,766,589 | 8,915,639 |
| Current and savings accounts deposits | 175,318 | 169,172 |
| Deposits and balances due to other banking institutions | 30,186 | 3,269 |
| | **9,972,093** | **9,088,080** |
| **6. Operating Expenses** | | |
| Staff costs (Note 7) | 960,148 | 909,413 |
| Directors' emoluments as executives | 24,101 | 18,681 |
| Depreciation and amortisation | 88,440 | 88,266 |
| Auditors remuneration - current year fees | 10,071 | 9,615 |
| Contribution to Deposit Protection Fund | 208,815 | 187,114 |
| Operating lease rent | 129,498 | 165,613 |
| Loss on disposal of property and equipment | - | 1,958 |
| Administration expenses (Note 9) | 317,448 | 229,069 |
| Establishment expenses (Note 9) | 110,418 | 129,436 |
| | **1,848,939** | **1,739,165** |
| **7. Staff costs** | | |
| Salaries and wages | 709,760 | 671,077 |
| National Social Security Fund (NSSF) - Employer's contribution | 48,073 | 45,950 |
| Fringe benefits | 1,070 | 76 |
| Staff leave | 14,284 | 13,045 |
| Staff medical | 34,026 | 34,314 |
| Staff training | 1,415 | 1,461 |
| Other staff expenses | 151,520 | 143,490 |
| | **960,148** | **909,413** |

| Figures in Kenyan Shillings ('000) | 2022 | 2021 |
|---|---|---|
| **8. Staff costs** | | |
| **Number of employees during the year** | | |
| Management | 152 | 155 |
| Supervisory | 4 | 4 |
| Unionisable | 85 | 86 |
| | **241** | **245** |
| **9. Expenses details** | | |
| **(a) Administrative expenses** | | |
| Advertising | 13,960 | 16,768 |
| Computer expenses | 67,582 | 53,975 |
| Donations | 5,985 | 100 |
| Subscriptions and periodicals | 3,363 | 2,165 |
| Entertainment | 544 | 330 |
| Legal and professional fees | 121,986 | 136,203 |
| Miscellaneous | 43,918 | 41,688 |
| Postages and telephones | 8,557 | 4,231 |
| Printing and stationery | 14,942 | 13,467 |
| Secretarial fees | 319 | 348 |
| Insurance | 20,786 | 16,962 |
| Traveling and motor vehicle | 15,506 | 14,135 |
| | **317,448** | **300,372** |
| **(b) Establishment expenses** | | |
| Electricity and water | 24,394 | 22,693 |
| Insurance | 169 | 1,400 |
| Licences | 3,945 | 3,910 |
| Office cleaning | 17,229 | 13,781 |
| Repairs and maintenance | 46,675 | 45,902 |
| Addional tax assessement | 18,006 | 41,750 |
| | **110,418** | **129,436** |
| **10. Impairment losses on financial assets;** | | |
| **Loans and advances to customers** | | |
| Expected Credit loss | 1,236,760 | 888,943 |
| | **1,236,760** | **888,943** |
| **11. Finance Costs** | | |
| Interest on lease liabilities | **35,201** | **92,532** |
| **12. Taxation** | | |
| **Major components of the tax expense** | | |
| **Current** | | |
| Current year | 1,740,807 | 1,644,414 |
| Prior year over/(under) charge | 94,102 | - |
| | **1,834,909** | **1,644,414** |
| **Deferred** | | |
| Current year | 15,004 | (160,454) |
| | **15,004** | **(160,454)** |
| | **1,849,913** | **1,483,960** |

| Figures in Kenyan Shillings ('000) | 2022 | 2021 |
|---|---|---|
| **Reconciliation of the tax expense** | | |
| Reconciliation between accounting profit and tax expense. | | |
| Accounting profit | 7,056,583 | 6,683,499 |
| Tax at the applicable tax rate of 30% (2020: 25%) | 2,116,975 | 2,005,050 |
| **Tax effect of adjustments on taxable income** | | |
| Expenses not deductible for tax purposes | 209,012 | 13,187 |
| Income not subject to tax | (570,175) | (524,692) |
| Prior year over/(under) charge | 94,102 | |
| Tax rate change effect | - | (9,586) |
| | **1,849,913** | **1,483,960** |
| **Tax paid** | | |
| Balance at 1 January | (334,047) | 79,325 |
| Prior year undercharge | (112,108) | - |
| Current tax for the year recognised in profit or loss | (1,740,807) | (1,644,414) |
| Tax paid | 2,248,767 | 1,231,042 |
| Balance at 31 December | **61,805** | **(334,047)** |

## 13. Other comprehensive income

| | 2022 | 2021 |
|---|---|---|
| **Components of other comprehensive income** | | |
| Financial assets at fair value through other comprehensive income | | |
| Government securities | (2,347,127) | (1,064,738) |
| Deferred Tax | 117,356 | - |
| | **(2,229,771)** | **(1,064,738)** |

## 14. Cash in hand

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents consist of: | | |
| Cash in hand | 323,410 | 373,043 |

Exposure to currency risk
Refer to note 3 on Financial instruments and financial risk management for details of currency risk management for cash in hand.

## 15. Balances with Central Bank of Kenya

| | 2022 | 2021 |
|---|---|---|
| Balances with Central Bank of Kenya | **6,512,268** | **8,170,344** |
| - Cash reserve ratio | 6,297,151 | 7,817,630 |
| - Other (available for use by the bank) | 215,117 | 352,714 |
| | **6,512,268** | **8,170,344** |

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2022 the cash reserve ratio requirement was 4.25% (2021: 4.25%) of all customer deposits. These funds are not available for the Bank's day to day operations.

**Exposure to credit risk**
Balances with Central Bank of Kenya inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if counter parties fail to make payments as they fall due

**Exposure to currency risk**
Refer to note 3 on Financial instruments and financial risk management for details of currency risk management for cash in hand.

| Figures in Kenyan Shillings ('000) | 2022 | 2021 |
|---|---|---|
| **16. Government Securities** | | |
| Fair Value through other comprehensive income | 42,016,256 | 50,676,580 |
| Treasury bonds | 76,108,972 | 61,849,917 |
| | **118,125,228** | **112,526,497** |
| **Government securities comprise of:** | | |
| Maturing within 91 days | 11,954,481 | 12,971,418 |
| Maturing after 91 days and within a year | 7,663,730 | 6,842,448 |
| Maturing after a year | 3,791,761 | 10,796,084 |
| Maturing after three years | 94,715,256 | 81,916,547 |
| | **118,125,228** | **112,526,497** |

The fair values of the government securities classified as 'Fair Value through other comprehensive income' financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of amortised cost financial assets in 2022 and 2021, as all the financial assets were disposed of at their redemption date.

| | 2022 | 2021 |
|---|---|---|
| **17. Deposits and balances due from other banking institutions** | | |
| Balances with banking institutions in Kenya | 2,816,940 | 340,388 |
| Balances with banking institutions abroad | 2,072,047 | 911,298 |
| Balances with parent bank | 1,339,052 | 1,498,592 |
| | **6,228,039** | **2,750,278** |
| **18. Other assets** | | |
| Clearing account | 200,524 | 208,888 |
| Other receivables | 411,409 | 334,993 |
| | **611,933** | **543,881** |

In the opinion of the management, the banks exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report

| | 2022 | 2021 |
|---|---|---|
| **19. Loans and advances to customers** | | |
| Commercial loans | 39,109,125 | 35,641,374 |
| Overdrafts | 25,012,717 | 22,374,008 |
| Bills | 111,221 | 150,033 |
| **Gross loans and advances** | **64,233,063** | **58,165,415** |
| Expected credit loss on loans and advances | (3,317,421) | (3,191,306) |
| Suspended interest | (323,985) | (345,897) |
| **Net loans and advances** | **60,591,657** | **54,628,212** |
| **Expected credit loss on loans and advances** | | |
| At January 01 | 3,191,306 | 3,177,776 |
| Increase in expected credit loss for the year | 1,300,865 | 805,586 |
| Write off | 1,719 | 332,681 |
| Recoveries | (1,176,469) | (1,124,737) |
| **Total** | **3,317,421** | **3,191,306** |

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which expected credit loss have been recognised in books amount to Kshs. 6.016 Billion (2021: Kshs 6.088 Billion). The amounts are included in the statement of financial position net of expected credit loss at Kshs. 2.47 Billion (2021: Kshs 2.38 Billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income Interest income suspended amounting to Kshs 323.99 Million (2021: Kshs. 345.9 Million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the Bank.

**Categorisation of provision for impaired loans and advances**

Loans and advances are categorised as follows in accordance with IFRS 9: Financial Instruments:

| | 2022 | 2021 |
|---|---|---|
| At amortised cost | 60,591,657 | 54,628,212 |

**Concentration**

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

| | 2022 | 2022 | 2021 | 2021 |
|---|---|---|---|---|
| | Kshs `000 | % | Kshs `000 | Kshs `000 |
| Agriculture | 975,298 | 1.52% | 676,720 | 1.16% |
| Manufacturing | 15,838,406 | 24.66% | 13,788,915 | 23.71% |
| Building and construction | 3,438,323 | 5.35% | 4,645,890 | 7.99% |
| Mining and quarrying | 215,216 | 0.34% | 234,555 | 0.40% |
| Energy and water | 351,415 | 0.55% | 176,670 | 0.30% |
| Trade | 17,459,780 | 27.18% | 16,223,417 | 27.89% |
| Tourism, restaurants and hotels | 1,699,812 | 2.65% | 1,190,996 | 2.05% |
| Transport and communication | 5,554,542 | 8.65% | 4,838,196 | 8.32% |
| Real estate | 14,637,394 | 22.79% | 13,734,946 | 23.61% |
| Financial services | 374,328 | 0.58% | 207,700 | 0.36% |
| Social, Community and Personal Households | 3,688,549 | 5.74% | 2,447,410 | 4.21% |
| | **64,233,063** | **100%** | **58,165,415** | **100%** |

| Loans and advances neither past due nor impaired, past due but not impaired and individually impaired | 2022 | 2021 |
|---|---|---|
| Stage 1 | 46,287,673 | 41,406,702 |
| Stage 2 | 11,928,902 | 10,670,628 |
| Stage 3 | 6,016,488 | 6,088,085 |
| **Gross loans and advances to customers** | **64,233,063** | **58,165,415** |
| Less: Credit loss allowance for loans and advances plus suspended interest | (3,641,406) | (3,537,20) |
| **Net loans and advances to customers** | **60,591,657** | **54,628,212** |

The loans and advances that are less than 30 days are classified as Stage 1, loans and advances that are between 30 to 90 days past due are classified as Stage 2 while loans and advances that are 91 days past due are classified as Stage 3.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

| | | |
|---|---|---|
| **Stage 2** | 11,928,902 | 10,670,628 |

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

**Loans and advances individually impaired**

The fair value of the collateral value for loans and advances individually impaired is KES 3.2 Billion (2021: KES 3.4 Billion).

**Loans and advances renegotiated**
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 substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

**Repossessed collateral**
As at the end of the year, the Bank did not hold possession of any repossessed collateral held as security.

**Exposure to credit risk**
Loans and receivables inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

The bank's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles.

**Exposure to currency risk**
Refer to note 3 for details of currency risk management

## 20. Investment securities

| | 2022 | 2021 |
|---|---|---|
| Quoted equity investments: | | |
| At start of year | 2,162 | 2,162 |
| Fair value gain/(loss) | (1,924) | (1,891) |
| At end of the year | **238** | **271** |
| Unquoted equity investments: | 19,291 | 19,291 |
| At start and end of year | **19,529** | **19,562** |

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in the accounting policy.

## 21. Intangible assets

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortisation** | **Carrying value** | **Cost** | **Accumulated Amortisation** | **Carrying value** |
| Computer software | 30,548 | (23,160) | 7,388 | 22,328 | (20,558) | 1,770 |
| Total | 30,548 | (23,160) | 7,388 | 22,328 | (20,558) | 1,770 |

**Reconciliation of intangible assets - 2022**

| | **Opening balance** | **Additions** | **Disposals** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 1,770 | 8,220 | - | (2,602) | 7,388 |
| | 1,770 | 8,220 | - | (2,602) | 7,388 |

**Reconciliation of intangible assets - 2021**

| | **Opening balance** | **Additions** | **Disposals** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 22,328 | - | - | (20,558) | 1,770 |
| | 22,328 | - | - | (20,558) | 1,770 |

In the opinion of management there is no impairment in the value of intangible assets.

Amortisation costs are included in non interest expenses in the profit or loss.

## 22. Right of Use Asset

Details pertaining to leasing arrangements, where the bank is lessee are presented below:

**Net carrying amounts of right-of-use assets**

The carrying amounts of right-of-use are included in the following items;

| | 2022 | 2021 |
|---|---|---|
| Office rental space | 347,991 | 404,160 |

**Depreciation recognised on right-of-use assets**

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.

| | | |
|---|---|---|
| Office rental space | 92,205 | 54,909 |

The company leases rental space where the branches operate from. Each lease is reflected in the balance sheet as a right-of-use asset and a lease liability. The table below describes the nature of the company's leasing activities by type of right-of-use lease asset recognised on balance sheet:

| | No of right of-use assets leased | Range of remaining term | Average remaining lease term |
|---|---|---|---|
| Right-of-use asset - 2022<br>Office rental space | 28 | 1 to 7 years | 4 years |
| Right-of-use asset - 2021<br>Office rental space | 28 | 1 to 8 years | 4 years |

| Additional information on the right-of-use assets are as follows as at 31 December 2022 | Asset | Carrying value | Additions | Acumulated Depreciation |
|---|---|---|---|---|
| Office rental space | 684,176 | 347,991 | - | (280,016) |
| | 684,176 | 347,991 | - | (280,016) |

## 23. Property, plant and equipment

| | 2022 Cost | 2022 Accumulated depreciation | 2022 Carrying Value | 2021 Cost | 2021 Accumulated depreciation | 2021 Carrying Value |
|---|---|---|---|---|---|---|
| Buildings | 392,499 | (27,638) | 364,861 | 396,285 | (23,616) | 372,669 |
| Furniture and fittings | 447,755 | (211,620) | 236,135 | 442,026 | (178,359) | 263,667 |
| Motor vehicles | 49,864 | (31,214) | 18,650 | 29,650 | (24,997) | 4,653 |
| Computer and equipment | 233,525 | (217,359) | 16,166 | 214,729 | (191,434) | 23,295 |
| Leasehold improvements | 203,878 | (162,857) | 41,021 | 203,878 | (150,894) | 52,984 |
| Total | **1,327,521** | **(650,688)** | **676,833** | **1,286,568** | **(569,300)** | **717,268** |

**Reconciliation of property and equipment - 2022**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | 372,669 | - | (3,786) | (4,022) | 364,861 |
| Furniture and fittings | 263,665 | 6,281 | (552) | (33,259) | 236,135 |
| Motor vehicles | 4,653 | 20,213 | - | (6,216) | 18,650 |
| Computer and equipment | 23,295 | 18,988 | (191) | (25,926) | 16,166 |
| Leasehold improvements | 52,984 | - | - | (11,963) | 41,021 |
| | 717,266 | 45,482 | (4,529) | (81,386) | 676,833 |

**Reconciliation of property and equipment - 2021**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Buildings | 551,990 | 2,314 | (158,019) | (23,616) | 372,669 |
| Furniture and fittings | 292,508 | 152,319 | (2,802) | (178,360) | 263,665 |
| Motor vehicles | 29,650 | - | - | (24,997) | 4,653 |
| Computer and equipment | 232,660 | 13,863 | (31,793) | (191,435) | 23,295 |
| Leasehold improvements | 207,654 | 7,154 | (3,042) | (158,782) | 52,984 |
| | 1,314,462 | 175,650 | (195,656) | (577,190) | 717,266 |

In the opinion of management, there is no impairment in the value of property and equipment.

## 24. Deferred tax

| | 2022 Kshs '000 | 2021 Kshs '000 |
|---|---|---|
| **Deferred tax asset** | | |
| Deferred tax | 269,079 | 166,727 |
| **Reconciliation of deferred tax asset** | | |
| At beginning of the year | 166,727 | 6,281 |
| Accelerated capital allowances | (27,930) | 115,826 |
| Provisions | 12,926 | 44,620 |
| | 117,356 | - |
| | 269,079 | 166,727 |

**Recognition of deferred tax asset**
An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, where:
i) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
ii) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

## 25. Customer deposits

| | 2022 | 2021 |
|---|---|---|
| Savings account deposits | 12,130,435 | 12,075,821 |
| Current account deposits | 10,855,642 | 10,676,591 |
| Term deposits | 140,343,721 | 126,619,573 |
| | **163,329,798** | **149,371,985** |
| **Analysis of customer deposits by maturity** | | |
| Payable within 90 days | 62,429,373 | 65,586,875 |
| Payable after 90 days and within one year | 53,472,962 | 51,462,362 |
| Payable after one year | 47,427,463 | 32,322,749 |
| | **163,329,798** | **149,371,98** |

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

| | 2022 Kshs | 2022 % | 2021 Kshs | 2021 % |
|---|---|---|---|---|
| Other institutions and individuals | 140,639,121 | 86.11% | 128,008,629 | 85.70% |
| Private companies | 22,629,418 | 13.86% | 21,243,517 | 14.22% |
| Insurance companies | 61,259 | 0.04% | 119,839 | 0.08% |
| | 163,329,798 | 100% | 149,371,985 | 100% |

Included in customer accounts were deposits of KES. 5,875.805 million (2021: KES. 5,719.178 million) held as collateral for loans and advances.

The fair value of those deposits approximates the carrying amount.

## 26. Deposits and balances due to other banking institutions

| | 2022 | 2021 |
|---|---|---|
| Parent bank | 243,414 | - |
| Foreign banks | 131,806 | 547,761 |
| | 375,220 | 547,761 |
| Split between non-current liabilities and current portions | | |
| Current liabilities | 375,220 | 547,761 |

## 27. Other liabilities and lease liabilities

| | 2022 | 2021 |
|---|---|---|
| **(a) Other liabilities** | | |
| Staff leave and gratuity accrual | 406,489 | 420,714 |
| Bills payable | 162,508 | 136,054 |
| Provisions for impairment on unutilised facilities and off balance sheet items | 63,831 | 91,950 |
| Other accounts payable | 260,618 | 100,195 |
| | 893,446 | 748,913 |
| **(b) Lease liabilities** | | |
| The maturity analysis of lease liabilities is as follows: | | |
| Within one year | 113,277 | 99,488 |
| More than one year | 223,625 | 367,504 |
| | 336,903 | 466,992 |
| Less finance charges component | (35,201) | (196,994) |
| | 301,702 | 269,998 |
| Non-current liabilities | 223,625 | 367,504 |
| Current liabilities | 113,277 | 99,488 |
| | 336,903 | 466,992 |

The Bank has elected not to recognise a lease liability for short term leases (leases expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred lease rentals on operating lease expense.

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

## 28. Share capital

| | 2022 | 2021 |
|---|---|---|
| **Authorised** | | |
| 98,971,676 Ordinary shares of KES 20.00 each | 1,979,434 | 1,979,434 |
| **Issued** | | |
| 98,971,676 Ordinary shares of KES 20.00 each | 1,979,434 | 1,979,434 |

| Figures in Kenyan Shillings ('000) | 2022 | 2021 |
|---|---|---|

## 29. Fair value reserve

The fair value reserve relates to the cumulative net change in financial assets at fair value through other comprehensive income until the investment is derecognised.

The current year movements have been set out in (Note: 13).

## 30. Statutory loan loss reserve

Where impairment losses required by legislation or regulation exceed those computed under International Financial Reporting Standards (IFRS's), the excess is recognised as a statutory reserve and accounted for as an appropriation of Retained Earnings. The reserves are not distributable.

## 31. Dividends

| | 2022 | 2021 |
|---|---|---|
| Proposed dividends | 2,969,150 | 2,969,150 |

Dividends proposed are from operating profits

## 32. Related parties

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 include guarantees and letters of credit which have been issued to related companies.

Key management includes the directors and other members of key management.

| **(a) Compensation to key management** | 2022 | 2021 |
|---|---|---|
| Short-term employee benefits | 45,395 | 39,456 |
| Post-employment benefits | 18,687 | 11,584 |
| | 64,082 | 51,040 |
| **(b) Management fees paid** | | |
| Related companies | 77,902 | 71,771 |

| | Related companies | | Senior Management Employees | | Other employees | |
|---|---|---|---|---|---|---|
| **(e) Outstanding loans and advances** | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| At January 1 | 17,114 | 17,289 | 13,235 | 13,193 | 585,455 | 535,809 |
| Advances during the year | 6,153 | 4,068 | 6,429 | 6,229 | 168,512 | 213,804 |
| Repayments during the year | (5,616) | (4,243) | (791) | (6,187) | (146,688) | (164,158) |
| At December 31 | 17,652 | 17,114 | 18,873 | 13,235 | 607,278 | 585,455 |

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

| | Directors | | Related companies | | Senior Management Employees | | Other employees | |
|---|---|---|---|---|---|---|---|---|
| **(f) Deposits** | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| At January 1 | 532,999 | 451,070 | - | - | 2,819 | 920 | 99,708 | 127,429 |
| Deposits received during the year | 536,975 | 400,163 | - | - | 18,061 | 21,556 | 121,404 | 263,159 |
| Withdrawals during the year | (563,775) | (318,234) | - | - | (16,481) | (19,657) | (171,760) | (290,880) |
| At December 31 | 506,199 | 532,999 | - | - | 4,399 | 2,819 | 49,352 | 99,708 |

| | 2022 | 2021 |
|---|---|---|
| **(g) Directors emoluments** | | |
| Fee | 24,101 | 18,681 |
| | 24,101 | 18,681 |

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

## 33. Cash generated from operations

| | 2022 | 2021 |
|---|---|---|
| Profit before taxation | 7,056,583 | 6,683,499 |
| Adjustments for: | | |
| Depreciation and amortisation | 176,193 | 145,796 |
| Loss on sale of asset | (52,539) | 1,958 |
| Finance costs | 35,201 | 92,532 |
| Changes in working capital: | | |
| Loans and advances to customers | (6,067,648) | (6,992,382) |
| Placement with and loans and advances to other banking institutions | (3,477,761) | 294,712 |
| Other assets | 68,051 | 52,787 |
| Due to local banking institutions | (922,981) | 2,857,818 |
| Customer deposits | 13,957,813 | 14,371,770 |
| Other liabilities | (144,533) | 2,940 |
| | **10,628,379** | **17,511,429** |

## 34. Off-balance sheet financial instruments, contingent liabilities and commitments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of credits. The majority of these facilities are offset by corresponding obligations from third parties.

**Contingent liabilities**

| | 2022 | 2021 |
|---|---|---|
| Spots | 401,348 | 173,891 |
| Letters of credit | 1,735,443 | 2,115,070 |
| Guarantees | 3,084,947 | 3,409,038 |
| Bills sent for collection | 3,001,665 | 1,684,895 |
| Forwards | 14,847 | - |
| | **8,238,250** | **7,382,894** |

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

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

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

The Bank has open lines of credit facilities with correspondent Banks.

| | 2022 | 2021 |
|---|---|---|
| **Commitments** | | |
| Undrawn formal stand-by facilities, credit lines | 5,244,487 | 4,990,256 |

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.

## 34. Currency

The financial statements are presented in Kenya Shillings rounded to the nearest thousand shilling ('000).

## 35. Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current y

## 36. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and number of shares outstanding during the year.

| | 2022 | 2021 |
|---|---|---|
| Net income for the period attributable to shareholders | 5,206,670 | 5,199,539 |
| Number of ordinary shares in issue | 98,971,676 | 98,971,676 |
| Earnings per share | 52.61 | 52.54 |

## 37. Fair Value Fair Value Hierachy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

**Level 1:** Quoted unadjusted prices in active markets for identical assets or liabilities that the bank can access at measurement date.

**Level 2:** Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

**Level 3:** Unobservable inputs for the asset or liability.

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

## 38. Events after the reporting period

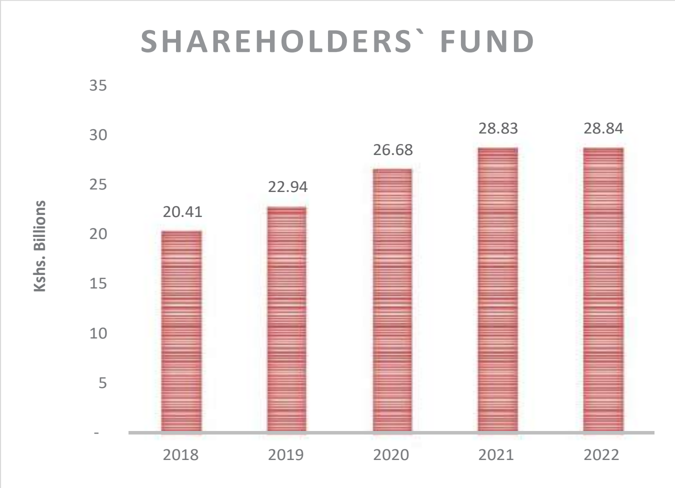
The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existence or on the financial performance of the Bank for the period.

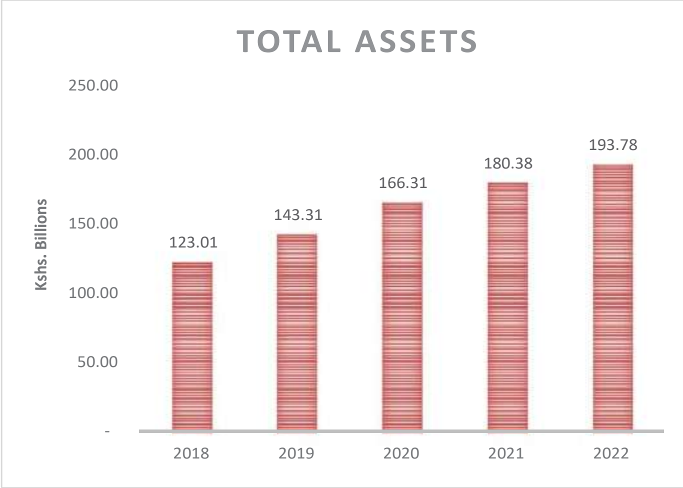
# APPENDIX

## III. OTHER DISCLOSURES

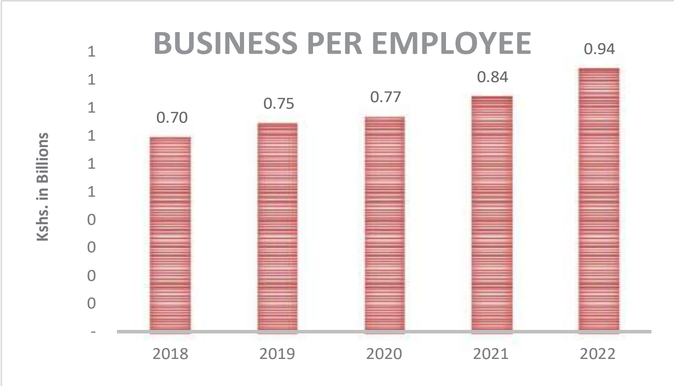
| | | 2022 | 2021 |
|---|---|---|---|
| **1.0** | **NON-PERFORMING LOANS AND ADVANCES** | | |
| | **(a) Gross Non-performing loans and advances** | **6,016,488** | **6,088,085** |
| | (b) Less: Interest in Suspense | 323,987 | 345,897 |
| | **(c)Total Non-Performing Loans and Advances (a-b)** | **5,692,501** | **5,742,188** |
| | (d) Less: Loan Loss Provision | 2,474,571 | 2,385,720 |
| | **(e) Net Non-Performing Loans and Advances(c-d)** | **3,217,930** | **3,356,468** |
| | (f) Discounted Value of Securities | 3,217,930 | 3,356,468 |
| | **(g) Net NPLs Exposure (e-f)** | **-** | - |
| **2.0** | **INSIDER LOANS AND ADVANCES** | | |
| | (a) Directors, Shareholders and Associates | - | 18,656 |
| | (b) Employees | 644,070 | 614,670 |
| | **(c)Total Insider Loans and Advances and other facilities** | **644,070** | **633,326** |
| **3.0** | **OFF-BALANCE SHEET ITEMS** | | |
| | (a)Letters of credit,guarantees, acceptances | 4,820,389 | 5,524,108 |
| | (b) Forwards, swaps and options | 416,195 | 173,891 |
| | (c)Other contingent liabilities | 3,001,666 | 1,684,895 |
| | **(d)Total Contingent Liabilities** | **8,238,250** | **7,382,894** |
| **4.0** | **CAPITAL STRENGTH** | | |
| | **(a)Core capital** | **30,813,723** | 28,678,544 |
| | (b) Minimum Statutory Capital | 1,000,000 | 1,000,000 |
| | (c)Excess/(Dificiency)(a-b) | 29,813,723 | 27,678,544 |
| | **(d) Supplementary Capital** | **-** | - |
| | **(e) Total Capital (a+d)** | **30,813,723** | **28,678,544** |
| | **(f)Total risk weighted assets** | **99,550,442** | **95,644,159** |
| | **(g) Core Capital/Total deposits Liabilities** | 18.87% | 19.20% |
| | (h) Minimum statutory Ratio | 8.00% | 8.00% |
| | (I) Excess/(Deficiency) (g-h) | 10.87% | 11.20% |
| | **(j) Core Capital / total risk weighted assets** | **30.95%** | **29.98%** |
| | (k) Minimum Statutory Ratio | 10.50% | 10.50% |
| | (l) Excess (Deficiency) (j-k) | 20.45% | 19.48% |
| | **(m) Total Capital/total risk weighted assets** | **30.95%** | **29.98%** |
| | (n) Minimum statutory Ratio | 14.50% | 14.50% |
| | (o) Excess/(Deficiency) (m-n) | 16.45% | 15.48% |
| | (p) Adjusted Core Capital/Total Deposit Liabilities* | 18.87% | 19.24% |
| | (q) Adjusted Core Capital/Total Risk Weighted Assets* | 30.95% | 30.04% |
| | (r) Adjusted Total Capital/Total Risk Weighted Assets* | 30.95% | 30.04% |
| **14** | **LIQUIDITY** | | |
| **14** | **(a) Liquidity Ratio** | **79.66%** | **81.64%** |
| 14.2 | (b) Minimum Statutory Ratio | 20.0% | 20.0% |
| 14.3 | (c) Excess (Deficiency) (a-b) | 59.7% | 61.6% |

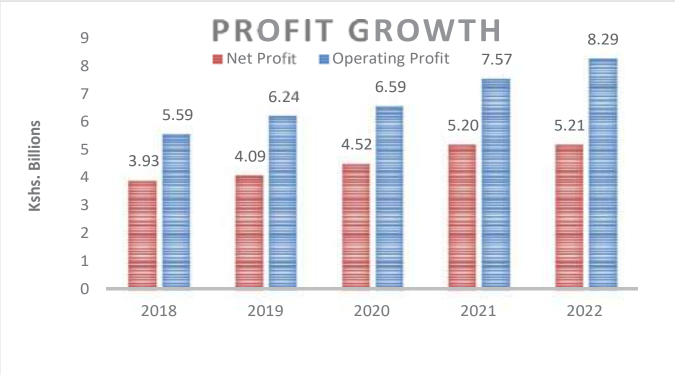
# FINANCIAL HIGHLIGHTS

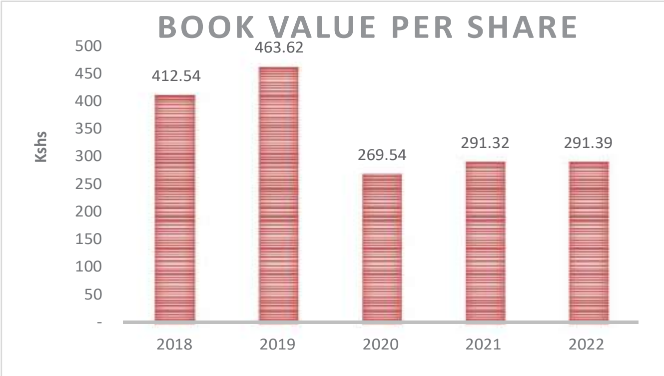






# HIGHLIGHTS 2022

## Annual General Meeting 2022

Farewell of High Commissioner of India.

Launch of Revamped Internet Banking.

MD with Retired Employees of Bank.

## Asset Financing MOU Signing

MOU signing with Deluxe Motors.

MOU signing with TATA motors.

MOU signing with Simba Corp.

# ACTIVITIES AND EVENTS

Bank's Football Team

Cricket Team of Bank during AKAM Cricket Tournament.


Bank's team at KIB Sports Meet 2022

## Think Business Banking Awards 2022

## Donations

Donations to Cherish Watoto Children Home.


Donation to Tree House Childrens Home.


Donation to KBA for Drought Relief.

Staff Celebrations at Office

Retired Employees Felicitation

# NOTES

# NOTES

Bank of Baroda (Kenya) Ltd.


**Best bank to borrow from**
WINNER

**The most customer-centric bank.**
2ND RUNNER UP

**The most efficient bank**
1ST RUNNER UP

**Best bank in Tier-II**
2ND RUNNER UP

**Overall best bank in Kenya**
2ND RUNNER UP

**Best bank in SME banking**
1ST RUNNER UP

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