ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR 2023

7 Decades of Financial Excellence,
Generations of Trust and Heritage

A JOURNEY WELL TRAVELLED

Bank of Baroda (Kenya) Ltd.

Bank of Baroda (Kenya) Ltd.

YOUR MOST TRUSTED BANK 70 YEARS

1953

Started Operations in Kenya

Bank of Baroda, India started its glorious journey of its Overseas Operations this year by opening a branch at Makadara Road, Mombasa in Kenya.

1959

Growth Continues

Another branch was opened at Digo Road in Mombasa.
Subsequently, in 2002 Makadara Branch was merged with Digo Road Branch, Mombasa.

1992

Subsidiary Company Incorporated

The subsidiary, Bank of Baroda (Kenya) Ltd was incorporated with Bank of Baroda, India and local shareholders.

2022

A wider reach

The Bank presently operates through 14 strategically located branches across the country;
Nairobi (6 Branches), Mombasa(2 Branches), Kisumu, Eldoret, Nakuru, Kakamega, Thika, Nyali & Meru.

2023

70 years of operations

Ranked amongst the top 10 banks in Kenya

TABLE OF CONTENT

PINNACLE MOMENTS
A Glance at Our Year's Journey

- Launch of Social Media Channels
  - lets get social...
  - @bankofbarodake
- Launch of first Cash recycler (ATM) and Cheque Deposit Machine
- Special Rupee Vostro A/C
- YOUR MOST TRUSTED BANK 70 YEARS
- pesapal
- Launch of Sales and Service Centre
  - Baroda WORLD
- Launch of Pesa Link
  - Pesa Link
- Digital Signage
- Launch of Project Malaika
  - Malaika
  - Banking On Her!
- Sports Policy

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 and -1- Sales & Service Centre spanning across Kenya. The Bank's vision is to be themost respected and preferred 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 successfully positioned itself as a leading force in the Kenyan banking sector. It is dedicated to supporting key areas of the economy by providing loans to diverse sectors such as manufacturing, trade, and agriculture. Classified as a Tier II bank, it enjoys a positive public reputation and customer trust.

CORPORATE INFORMATION

Principal Shareholder
Bank of Baroda, India - 86.70%

Country of incorporation and domicile
Bank of Baroda, India - 86.70%

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 (Bank Office)
Mr. Patrick Sila	Head - Finance
Mr. Lusiji Patrick Kombe	Head - Information Technology
Mr. Rishabh Sharma	Head - Sales & Marketing
Mr. Mr. Dhirajlal N. Shah	Manager - Marketing
Mr. Nishant Jaiswal	Secretary to the Board
Mr. Jasobanta Kar	Branch Head - Digo Rd Branch, Mombasa
Mr. Praneeth N. 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. Narendra Mishra	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. Rajan Saini	Branch Head - Diamond Plaza, Nairobi
Mr. Dheeraj .	Branch Head - Mombasa Road Branch, Nairobi
Mr. Chandan Kumar	Branch Head - Muthithi Road Branch, Nairobi

REGISTERED OFFICE
Baroda House, 90, Muthithi Road
P.O. Box 30033-00100, Nairobi, Kenya
Tel: (020) 2248402, 2248412, 2226416
Fax: (020) 316070/310439
Website: www.bankofbarodakenya.co.ke
E-Mail: ho.kenya@bankofbaroda.com
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

INDEPENDENT AUDITOR
Nexia SJ LLP Kenya
Certified Public Accountants (Kenya)
Fedha Plaza; 8th Floor
Mpaka Road, Westlands
P.O. Box15206-00509
Nairobi - Kenya

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

Legal Advisers
Taibjee & Bhalla Advocates LLP
A.B. Patel & Patel Advocates
Ondati Mogaka & Associates Advocates
Patel & Patel Advocates
Mathews & Partners LLP

Company Secretaries
Africa Registrars
Certified Public Secretaries
KMA Centre, Block D; 2nd Floor
Chyulu Road; Upper Hill
P. O. Box 1243-00100
Nairobi

HEAD OFFICE

Baroda House, 90 Muthithi Road
P.O. Box 30033, 00100
NAIROBI
Telephone: (020) 2248402 / 2248412 / 2226416
Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; 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), Near Airtel Bldg,
P.O. Box No. 18948 – 00500
Mombasa Road, 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
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
E-mail: meru@bankofbaroda.com

Nakuru Branch, Nakuru
Vikers 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

SALES AND SERVICE CENTRE

Baroda World
IMAARA Mall,
1st floor, Mombasa Road,
Nairobi.

PERFORMANCE AT A GLANCE

YOUR MOST TRUSTED BANK
70 YEARS

TOTAL BUSINESS
KSH 242.33 BILLION

TOTAL DEPOSITS
KSH 170.12 BILLION

TOTAL ADVANCES
KSH 72.21 BILLION

TOTAL ASSETS
KSH 201.94 BILLION

PROFIT BEFORE TAX
KSH 7.3 BILLION

BOOK VALUE PER SHARE
KSH 281.91

RETURN ON SHAREHOLDERS` FUND
GROWTH: 20.45%

CAPITAL ADEQUECY
GROWTH: 32.32%

RETAIL GROWTH
GROWTH: 30.04%

GROWTH IN MOBILE BANKING USERS
GROWTH: 30.7%

GROWTH IN CASA
GROWTH: 15.2%

GROWTH IN NET BANKING USERS
GROWTH: 46.2%

GROWTH IN DEBIT CARD USERS
GROWTH: 29.1%

GROWTH IN INSURANCE PREMIUM FINANCE
GROWTH: 162%

CHAIRMAN`S REPORT

Dear Esteemed Stakeholders

I am excited to extend a warm welcome to each of you as we come together for the occasion of the 32nd Annual General Meeting of the Bank to review the accomplishments of the past year.
It is with great pleasure and honor to present to you the Annual Report and Financial Statements for the financial year ended December 31, 2023, encapsulating your Bank's progress and achievements, which have resulted from the efforts of the Staff, Management and Directors of the Bank over the past year.
Before we delve into the details, I want to take this opportunity to extend my sincere appreciation to all the shareholders and other stakeholders. As we stand here today, reflecting on a remarkable journey spanning 70 years, it is undeniable that your confidence in the bank has been instrumental in shaping the identity and success of the Bank.

The year 2023 was marked by various challenges for the banking industry, both locally and internationally. This included a high-interest-rates environment, upward movement of the CBR, tightening liquidity in the local market, local currency depreciation against the major currencies, difficulties in accessing foreign currency, concerns over inflation and global market uncertainties. However, through prudent decision-making and the implementation of best risk management practices, the Bank responded effectively, striving to create value for all our stakeholders. Despite the prevailing uncertainties and economic fluctuations, I am pleased to report that your Bank demonstrated resilience, adaptability, and continued growth throughout the year.

In light of the above backdrop, allow me to provide an overview of the economic and financial landscape within which your Bank operated during the reporting year 2023.

GLOBAL MACRO ENVIROMENT

According to a report by the World Bank (World Bank's Global Prospects 2024), global economic growth in 2023 remained suppressed on account of multiple overlapping shocks, namely rapid monetary policy tightening, disruptions to recovering supply-chains by war and conflicts, for instance Israeli-Gaza war as well as the ongoing Russian Federation's invasion of Ukraine, alongside underlying price pressures.
Global economic growth remained varied across countries in 2023. Emerging market and developing economies showed stronger GDP growth compared to 2022, while advanced economies such as the UK, Japan, and the Euro area fell below expected growth levels.

For instance, the UK's GDP growth in 2023 is estimated at 0.5%, substantially lower than the 4.3% growth recorded in 2022. Conversely, both China and the US experienced an upward trend in growth in 2023 compared to the previous year. China's GDP growth is estimated at 5.2%, while the US growth rate stands at 2.5%, representing an improvement from 2022. Russia has yet to fully rebound to its trend, experiencing positive growth in 2023 after a decline of 1.2% in 2022. India's economy has demonstrated resilience and its growth is estimated at of 6.7% in 2023.

DOMESTIC MACRO ENVIROMENT

Kenya's economy outperformed market projections by achieving a notable GDP growth rate of 5.6% in the annual assessment of 2023, marking a significant improvement from the previous year's 4.8% growth. This was primarily fueled by a remarkable rebound in the agricultural sector, which had experienced consecutive years of decline prior to this turnaround. Sustained recovery in the agriculture sector following improved weather patterns and government-backed input subsidies similarly buoyed overall growth. Subsectors such as accommodation and restaurant services, financial and insurance services, manufacturing, and construction sectors contributed substantially to the economic upswing.

Growth in Manufacturing sector in 2023 is expected to be lower than the year 2022. The sector has demonstrated a decline in the growth rate from 7.3 % in 2021, 2.7% in 2022 and estimated 1.9% for 2023. The CBK projects it @ 2.9 % for 2024. Real estate growth is consistent between 4.1 % to 5.8% for the last 4 years.

We predict that the economy will continue showing strong growth in 2024, with a likely growth rate of over 5.5% as it did in 2023. This is driven by a thriving services sector, increased investments and improving real incomes. However, the forecast growth rate faces risks stemming from various factors, including elevated interest rates, exchange rate fluctuations, high tax burden, and volatile commodity prices amidst escalating global uncertainties. Furthermore, the imminent maturity of foreign currency debts in 2024 could exert significant pressure on the economy. Additionally, the current drive for fiscal consolidation is expected to weigh on the government's spending multiplier effect on growth.

In 2023, Kenya's current account deficit decreased to 3.9% of GDP from 5.0% in 2022. Projections for 2024 expect it to rise slightly to 4.0% of GDP, indicating increased imports, steady remittances, and a likely boost in agricultural exports. Although goods exports declined by 2.2% in 2023, compared to a 9.3% increase in 2022, there was a significant 10.6% drop in goods imports during the same period also. This decline in exports was mainly driven by tea, crude materials, clothing accessories, and animal and vegetable oils

The usable foreign exchange reserves remained in line with the Central Bank of Kenya's statutory requirement, which covers imports for a period of 4 months throughout the year. However, by the year end, they fell slightly below this mark, reaching USD 6,583 million.

Throughout the year, the annual average inflation consistently hovered above 7%. However, a noticeable decline in this trend was observed, towards the end of the year and by close of the year the rate was at 6.6%.
The Kenya Shilling remained relatively volatile against major international and regional currencies during the year. It exchanged at Kshs 156 – 157 per US dollar at the end of 2023.

FINANCIAL RESULTS

Despite numerous challenges posed to the Kenyan banking industry by global and domestic economic factors, am very happy to report that your Bank achieved a significant milestone by surpassing Kshs 200 billion in total assets for the first time in its history.

Total business expanded by Kshs 14.8 billion, reaching a closing figure of Kshs 242.3 billion. The Bank's retail loans surged by 30% to Kshs 6.32 billion as at December 31, 2023, compared to Kshs 4.86 billion as at December 31, 2022. The Gross Non-Performing Assets (NPAs) as a percentage of Gross Advances decreased to 7.80% from the previous year's 9.4%. Profit before tax stood at Kshs 7.29 billion for the period ending December 31, 2023, compared to Kshs 7.06 billion for the same period last year
This growth is a testament to the strength of our business model and the dedication of our team.
Our customers are at the heart of everything we do, and in 2023, we continued to enhance our customer experience initiatives. By leveraging technology and innovation, we introduced new digital banking solutions to meet the evolving needs of our customers.
Throughout the year, numerous initiatives, including several 'THE FIRST" pioneering milestones were achieved, including:

- Introduction of the first ATM equipped with a "Cash Recycling" capability, setting a new standard and mark in the banking industry in the country.
- The first "sales and service center" under the name of "Baroda World" at The Imaara Mall.
- Enabled the interbank fund transfers by linking Baroda Mobi App with "Pesalink" IMPS services of CBK.

- Collaboration for POS (Point Of Sale) machines services for enabling collection services to its customers.
- e-Commerce facilities on the debit card has been enabled so that it can help customer to purchase using on-line services of various companies.
- Introduction of digital signage and queue management at the branches.
- New brand building campaigns on the occasion of celebrating 70 years of presence in Kenya.

The Bank remains steadfast in its commitment to providing superior returns to its valued shareholders through consistent performance. As in the previous year, we are pleased to propose a dividend of Kshs 30.00 per share, subject to approval by our shareholders. This will result in a total dividend payout of Kshs 2.9 billion for the financial year ended December 31, 2023.

Your Bank is also committed to remain compliant with all legal and regulatory guidelines. I assure you that the Bank is also agile in adopting the best practices and in embracing the emerging trends in the banking & technological space, including the recognition of the importance of sustainability and corporate responsibility. In 2023, we intensified our efforts to promote environmental stewardship, social responsibility and ethical governance practices. We have embraced ESG related standards and implemented initiatives to support community development projects. The Bank will continue to support the society under its CSR projects in general and under the project "Malaika" in particular for empowering women in the field of social security, financial inclusion and financial literacy.

On behalf of the Board, I assure you that your Bank remains dedicated to our corporate vision of creating value for all stakeholders, including our esteemed customers. Our strategic priorities include further enhancing our digital capabilities, expanding our product offerings, and deepening our engagement with customers and communities. To this end, we have strategically positioned ourselves to enhance customer satisfaction. We anticipate that management will spearhead more customer-centric initiatives, such as expanding our sales and service centers, upgrading our mobile banking platform, automating various reports and returns, establishing a contact center, and fostering a proactive and innovative approach to realizing the Bank's vision in the days ahead.

I extend my heartfelt gratitude to the loyal customers for their unwavering support, as well as to Bank's dedicated staff and management for their commitment to excellence. I would also like to express my appreciation to the Managing Director and fellow Directors for their steadfast support in guiding the Bank's journey of sustained growth and consistency.
In conclusion, I am confident that Bank of Baroda is well-positioned to overcome challenges and deliver sustainable value in the years to come. We remain steadfast in our mission to be a trusted financial partner and a catalyst for positive change.
Thank you all for being invaluable contributors to the Bank's success.

Sincerely,

Chairman
Bank of Baroda (Kenya) Limited

BOARD OF DIRECTORS

Mr. Debadatta Chand
Chairman (Retired)
Nationality: Indian Age: 52
Appointment Date: March 24, 2023

Qualifications
B. Tech. MBA, CAIIB; CPM
Dip. In Equity Research Analysis
Other Directorship: Bank of Baroda (India) -Managing Director BOB Capital Markets, SWIFT India Domestic

Percentage of individual share holding in the bank:
None

Mr. Stephen Lugalia
Chairman Director Non-Executive (Active)
Nationality: Kenyan Age: 66
Appointment Date: March 15, 2021

Qualifications
B.com(Accounting), FCPAK, CPSK , Certified Trainer in Corporate Governance, Certified Board Evaluator

Other Directorship:
Laser Insurance Brokers Limited, Jumbolink communications Limited, FGB Solutions Limited, GA Life Insurance Company, Metropl Corporation Limited

Percentage of individual share holding in the bank: None

Mr. Vinay Kumar Rathi
Managing Director
Nationality: Indian Age: 50
Appointment Date: February 3, 2022*

Qualifications
MBA –Banking & Finance
CAIIB, PGDBFM, B. Com
Other Directorship: None
Percentage of individual share holding in the bank:
Two Shares Held in Trust

Mr. Ravi Kant Pathak
Director Executive
Nationality: Indian Age: 46
Appointment Date: October 6, 2020

Qualifications
Msc.Maths, PGDCA, MCA, CAIIB
Associate member of IIBF
Other Directorship: None
Percentage of individual share holding in the bank: Two Shares Held in Trust

Mr. Rajesh Amritlal Vadgama
Director Non-Executive
Nationality: Kenyan Age: 59
Appointment Date: March 2, 2023

Qualifications
CPA FCCA
Other Directorship:
East Wood Consulting Limited
Manage IT Limited
Little Pesa Ltd
Percentage of individual share holding in the bank: None

Prof. Florence Nyabiage Ondieki -Mwaura
Director Non-Executive
Nationality: Kenyan Age: 51
Appointment Date: August 18, 2022

Qualifications
Phd (Development Studies), M Phil (Development Studies)
BSC (Horticulture)
Other Directorship: Environmental Health & Safety (EHS) Limited
Percentage of individual share holding in the bank: None

*Appointment Date - CBK approval date

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 share holders' 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 page5. 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 page12. 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 17, 2023
- June 19, 2023
- September 13, 2023
- December 6, 2023

The attendance of individual directors is as follows:

Name of Director	Period	Meetings held during their tenure	Meetings attended
Mr. Debadatta Chand	24 March 2023 to 31 December 2023	3	3
Mr. Vinay Kumar Rathi	01 January 2023 to 31 December 2023	4	4
Mr. Ravi Kant Pathak	01 January 2023 to 31 December 2023	4	4
Mr. Stephen Lugalia	01 January 2023 to 31 December 2023	4	4
Prof. Florence Nyabiage Ondieki -Mwaura	01 January 2023 to 31 December 2023	4	4
Mr. Rajesh Amritlal Vadgama	01 January 2023 to 31 December 2023	4	4

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 6.

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 2023. 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 2023 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.

Members
- Mr. Stephen Lugalia.
- Prof. Florence Nyabiage Ondieki- Mwaura
- Mr. Rajesh Amritlal Vadgama

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

Members
- Mr. Rajesh Amritlal Vadgama
- Prof. Florence Nyabiage Ondieki- Mwaura
- Mr. Vinay Kumar Rathi
- Mr. Ravi Kant Pathak
- Mr. Stephen Lugalia.

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

Members
- Prof. Florence Nyabiage Ondieki- Mwaura
- Mr. Vinay Kumar Rathi
- Mr. Rajesh Amritlal Vadgama
- Mr. Stephen Lugalia.

Board Nomination Committee
It is responsible for all aspects of the appointment of the bank`s directors.

Members
- Mr. Stephen Lugalia.
- Mr. Vinay Kumar Rathi
- Mr. Rajesh Amritlal Vadgama
- Prof. Florence Nyabiage Ondieki- Mwaura
- Mr. Ravi Kant Pathak

Board Compensation Committee – (for Board Remuneration Committee)
It is Responsible for overseeing the compensation system's design and operation on behalf of the Board of Directors.

Members
- Mr. Rajesh Amritlal Vadgama
- Mr. Stephen Lugalia.
- Mr. Vinay Kumar Rathi
- Prof. Florence Nyabiage Ondieki- Mwaura
- Mr. Ravi Kant Pathak

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, 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.

Climate Risk Committee

The committee, chaired by the Managing Director, comprising various departmental heads. Climate Risk Committee meets on a half yearly to formulate and implement climate-related financial risk management strategies, policies, procedures, guidelines and set minimum standards for the Bank.

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 8, 2024

DIRECTORS` REPORT

The directors submit their report together with the audited annual report and financial statements for the year ended December 31, 2023

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

Global growth continues to witness the risk of slowdown amidst growing challenges such as restrictive financial and tight monetary conditions. Furthermore, downside risk emanates from escalated geo-political tensions especially in Middle East and the higher cost due to Red sea attack and the mounting geo-economic fragmentation. These run the risks of imping on global growth.

Kenya's GDP growth to record a growth rate of 5.6%, for the year 2023, compared to a growth rate of 4.8% a year prior. Growth was driven by mainly services sectors and agriculture sector. Sustained recovery in the agriculture sector following improved weather patterns and government backed input subsidies similarly buoyed overall growth. This growth was mainly supported by a rebound in agricultural activities that had contracted in 2022. During the year, Agriculture, Forestry, and Fishing activities' Gross Value Added rose by 6.7% compared to a contraction of 1.3%t in the year 2022 owing to favorable weather conditions that characterized the better part of 2023. In addition, the growth was also buoyed by significant growths in Financial and Insurance (14.7%), Information and Communication (7.3%) and Accommodation & Food Service (26.0%) activities. The substantial growth in Accommodation and Food activities was manifest in the significant increase in the number of visitor arrivals in the country. However, Transportation and Storage activities GVA decelerated from 5.1% in the 2022 to 2.8% in the year 2023, partly attributable to high cost of petroleum fuels.

On the other side, other non-agricultural growth, however, slowed amid tighter policies. Fiscal consolidation continued, delivering a stronger primary balance than originally envisaged in FY2022/23, while monetary policy was tightened by 375 basis points in 2023. The external current account balance improved as real exchange rate depreciated and imports contracted. Exports and remittances remained resilient. While foreign exchange reserves remain adequate, they declined in the second half of 2023 amid debt service payments and limited external financing inflows.

Tourist arrivals improved by 30.7 percent in 2023 compared to 2022. Total tourist arrived in 2023 is estimated to 1.95 mn while the figure for 2022 was 1.49 mn.

Similarly, diaspora remittances increased by 4.0 percent to $4,190 million in 2023 from $4,028 million in 2022.

The near-term outlook is one of continued resilience with growth projected at around 5% in 2024 amid ongoing adjustments in the fiscal policy and external accounts. Inflation is expected to inch up in the first half of 2024, driven primarily by global oil price volatility and exchange rate pass-through, but to remain contained due to the recent monetary policy tightening and as the authorities strive to deliver a stronger fiscal consolidation to stabilize the overall public debt/GDP in 2024. Notwithstanding the elevated downside risks in the near term, the government should be resolute in their actions to help keep confidence anchored.

Kenya's medium-term prospects are positive and could be buttressed by improving competitiveness, inclusivity, and enhancing governance and anti-corruption framework to support a vibrant and market-driven economy. Progress on the authorities' climate agenda, including RSF-supported reforms, will not only prepare the country well against future climate shocks, but also help attract climate finance to support these further efforts.

The Central Bank Rate (CBR) was increased to 12.50% in December 2023 from 10.50% that had been prevailing since June 2023. The June revision was an increase from 9.50% as reviewed upwards in March 2023 from 8.75%.

The overall year on year inflation rate as measured by the Consumer Price Index (CPI)
was 6.6% in December 2023. This was mainly driven by increases in prices of commodities under Transport (11.7%); Housing, Water, Electricity, Gas and other fuels (8.3%); and Food and Non-Alcoholic Beverages (7.7%) between December 2022 and December 2023. These three divisions account for over 57 per cent of the weights of the 13 broad categories

Interest rates among various securities and Forex rates were remained upward during the year.

3. Future economic outlook

US Fed has hinted at 3-rate cuts in CY24 with the first one expected in Jun'24. Bank of England and ECB too is expected to follow suit with rate cuts this year. On the other hand, BoJ made a historic shift and had hiked rates (0.1% from 0%) for the first time in over 17-years.
RBI is unlikely to pivot at the current juncture, given the resilience in domestic economy. The likelihood of any rate cuts has been pushed forward to H2FY25. It may be expected that there may be some rate cuts in future which however is contingent on evolving inflation scenario. The growth outlook for 2024 has been revised upwards, reflecting stronger-than-expected U.S. growth, continued strengthening of the Chinese economy

Growth projections in 2024 were upward In U.S. due to stronger than expected outcome in 2023; In China due to increased Government spending and stronger than expected growth in 2023; In India due to resilience in domestic demand; and In Russia due to high military spending and private consumption. However, growth projections for the Eurozone were revised downwards due to a lower-than-expected outcome in 2023

For Kenya, it is expected that inflation to remain in control while GDP % growth is expected to be above 5% in the year 2024. There has been debt burden on the Government, however expected to managed with the issuance of new Euro bond.
Kenya also may see the downtrend of interest rate in the year 2024, however Forex rates may remain volatile with the uncertainties in terms of its alignment with the interest rate movements of the currencies.

4. Performance appraisal

Major performance highlights for the year are as under:-

- Profit before Tax – Kshs 7.3 bn
- Profit after Tax – Kshs 5.7 bn
- Total assets crossed mile stone of Kshs 200 bn
- Growth in total Advances – 12 %
- Growth in Retail Advances – 30%
- Growth in Home Loan -24 %
- GNPA Lowest in last 6 years – 7.8 %
- NNPA Lowest in last 6 years - 3.2%
- Growth in BOB VUNA Recurring Deposit – 37 %
- Growth in Net Banking users – 46.2 %
- Growth in Mobile Banking users – 30.7%
- Growth in Debit Card user – 29.1%

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. As of December 31, 2023, gross deposits stood at Kshs 170.13 billion, (y.o.y 4.2%). In light of the challenging investment landscape amid rising interest rates, deliberate efforts were made to maintain conservative deposit growth throughout the year. Gross advances closed at Kshs 72.2 billion as at December 31, 2023, marking a substantial of 12.4% from the preceding year's Kshs 64.2 billion.

As part of a strategic decision, the growth rate in advances which was deliberately set higher than the deposit growth rate, was achieved successfully. In spite of tough economic conditions and narrowing Net Interest Margin (NIM), Bank was able to report increase in Profit Before Tax to reach Kshs 7.29 billion for the period ended 31.12.2023 from Kshs 7.06 billion of last year same period

Bank's various ratios stands as under

Particulars	31.12.22	31-12-23
Gross NPA (%)	9.37%	7.80%
Net NPA (%)	5.01%	3.18%
CD Ratio	39.33%	*42.44%*
Yield on Advances	11.27%	12.59%
Yield on Investments	12.20%	12.60%
Cost of Deposits	6.78%	7.81%
CASA Ratio	13.87%	15.24%
Net Interest Margin	5.36%	5.54%
Cost Income Ratio (incl. NPAs provisions)	18.55%	*20.45%*
Cost Income Ratio (excl. NPAs provisions)	30.66%	*28.97%*
ROAA	2.84%	2.85%
RONW	18.05%	20.45%
Core Capital/Total deposits Liabilities	18.87%	19.72%
Total Capital/total risk weighted assets	30.95%	32.32%

5. Way forward

The bank's journey towards the future success, to be anchored through the "5D" strategy, a multifaceted approach designed to drive growth, enhance efficiency, risk management and maximize value to all the stakeholders.
This strategic framework embraces the dynamic array of dimensions such as Diversification, Digital, Delivery Design, Discipline and Dividend, ensuring a comprehensive and adaptable roadmap for sustainability in an ever-evolving financial landscape.

Diversification: The bank is prioritizing the rebalancing of its balance sheet to enhance risk management. This entails improving the CD ratio, strengthening the CASA ratio, leveling various sectors within the credit portfolio, and fostering a sustainable customer mix.

Delivery Design: The bank will continue to enhance its new delivery channels, as exemplified by recent initiatives such as the opening of sales and service centers under the brand name 'Baroda World,' the introduction of more Relationship Managers, the establishment of a Contact Center, and the development of dedicated sales verticals.

Discipline: As the bank becomes increasingly sensitive to risk management practices, it aims to establish top-tier infrastructure to enhance visibility, transparency, and authenticity in its banking operations. Plans are in place to initiate the automation of reports and reporting, implement a Fraud Risk Management system, automate treasury solutions, ensure enhanced data protection, implement robust credit monitoring, and prioritize HR development.

Digital: Digital remains a core component of bank's strategy, bank is committed to furthering its efforts to expand its digital space. It includes, enhance its efforts for more recyclers, advancement of mobile banking & internet banking features, increase of POS connectivity, implement of ticketing system for customer requests, expansion of debit card base, increase in number of digital transactions etc.

Dividend: Dividends, serving as something beneficial for everyone involved, stand as the ultimate goal for an organization, fostering sustainability in its relationships with stakeholders.

These stakeholders include shareholders, who benefit financially from their investment; customers, who rely on the organization's products or services; employees, who contribute to the organization's success and expect fair compensation; Government & regulators, which regulate and interact with the organization; society at large, which is impacted by the organization's actions and contributions; and the environment, which is affected by the organization's operations and practices.

6. Share capital

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

7. Dividends

The Directors propose a final dividend of Kshs 30.00 per share amounting to Kshs 2.969 Billion from its profit of the year 2023 similar in the line of the year 2022.

8. Directors:

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

Name	Nationality
Mr. Debadatta Chand (Since resigned in February 2024)	Indian
Mr. Vinay Kumar Rathi	Indian
Mr. Ravi Kant Pathak	Indian
Mr. Stephen Lugalia	Kenyan
Prof. Florence Nyabiage Ondieki -Mwaura	Kenyan
Mr. Rajesh Amritlal Vadgama	Kenyan

9. Events after the reporting period

The directors are not aware of any material events that could affect the bank, occurred after the date of report till the date of its publication

10. 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

11. Terms of appointment of the auditor

M/S Nexia SJ Kenya were appointed to succeed M/S Grant Thornton LLP and are 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 shareholders approved the annual audit engagement contract for the year ended December 31, 2023 which set out the terms of the auditor's appointment and the related fees.

Approval of financial statements The financial statements were approved at a meeting by the board of directors on March 08, 2024 and were signed on its behalf by:

By order of the Board

For: AFRICA REGISTRARS - CO. SECRETARY

Company Secretary

Statement of Directors` Responsibilities

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

- 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.
- 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 related to events or conditions that may cast doubt upon the bank's ability to continue as a going concern.

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

The annual report and financial statements set out on pages 16 to 57, which have been prepared on the going concern basis, were approved by the directors on March 08 2024 and were signed on its behalf by:

Mr. Vinay Kumar Rathi **Managing Director**	**Mr. Stephen Lugalia** **Director (Non-Executive)**

INDEPENDENT AUDITOR`S REPORT

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 19 to 60, which comprise the statement of financial position as at 31 December 2023, 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 2023, 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.

No	Key audit matters	How our audit addressed the key audit matter
1	**Impairment loss on loans and advances to customers**	
	Impairment is a subjective area due to the level of judgement applied by management in determining provisions. The Bank is required to calculate impairment of loans and advances in accordance with both the regulations of the Central Bank of Kenya and IFRSs. We focused on the identification of impairment events, which differs based upon the type of lending product and customer. Judgement is required to determine whether a loss has been incurred. We also focused on the measurement of impairment losses, including the assessment of whether historical experience is appropriate when assessing the likelihood of incurred losses in respect to loans. As disclosed in under the significant accounting policies, judgement is applied in determining the appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customer that will default, the valuation of collateral for secured lending and the expected future cash flows of loans. The disclosure associated with credit risk is set out in the financial statements, under Significant accounting policies point number 3.	Our audit procedures included the assessment of key controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairment losses, and assessing the adequacy of impairment allowances for individually assessed loans and advances. We compared the Bank's assumptions for impairment allowances to externally available industry, financial and economic data and our own assessment in relation to key inputs. As part of this, we assessed the Bank's estimates and assumptions used including the consistency of judgement applied in determination of the amount and timing of expected future cash flows, and consideration of economic factors and historical default rates.We evaluated whether the Bank's assumption on the expected future cash flows, including the value of realisable collateral was based on up-todate valuations and available market information. We also assessed whether the financial statements disclosures appropriately reflect the Bank's exposure to credit risk.We reviewed management assumptions regarding the recovery rate of unsecured facilities.

No	Key audit matters	How our audit addressed the key audit matter
2	**Information control systems and controls over financial reporting in the financial statements**	
		Our audit procedures in this area included, among others the use of our IT auditors / specialists in:
	The Bank's financial and accounting and reporting systems are heavily dependent on complex systems. Significant reliance on IT systems presents a significant risk to the Bank as the core banking system is considered complex due to multiple significant functionalities and interdependencies with other systems. We spent significant audit effort in the audit of these systems as part of the audit process, as it is critical for the control environment of the bank and therefore, we determined it to be a key audit matter.	Reviewing of IT Governance practices to access their adequacy, the existence of IT Risk assessment, and the role of IT Steering Committee (if any) and the Board of Directors; Reviewing information systems within the financial institutions including core banking system, operating systems, applications, databases, servers and networking devices and confirm whether all the systems are robust enough to ensure data integrity, confidentiality and availability; Performing application controls testing which include configuration controls, sensitive access and segregation of duties controls, interface controls, data integrity controls and obtain reasonable assurance on the accuracy and completeness of reports; Reviewing and accessing whether balances resulting from all transactions and data processed within the Bank's IT system are accurately captured and reported in the General Ledger, the Financial Statements and Returns submitted to the CBK; and Reviewing IT security controls including application security, privileged access, audit trails, system monitoring and maintenance, controls over program and system changes, integrity and systems ability to recover from unexpected shutdown's and ability to recover from a disaster resulting in loss of data. The business continuity practice in its totality was reviewed.

Other information

The directors are responsible for the other information. The other information comprises the Corporate information, General information, Corporate Governance, the directors' report and the statement of Directors' responsibility. 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 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 governance for 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:

1. 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.
2. 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.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
4. 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 auditorls 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.
5. 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Kenya's Companies Act, 2015 and for no other purpose
As required by the Kenya's Companies Act, 2015 we report to you, based on our audit that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
2. In our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
3. The Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account."
4. The information given in the Report of the Directors' on page 10 to 11 is consistent with the financial statements.

S. Dattani

For and on behalf of Nexia SJ Kenya LLP
Certified Public Accountants (Kenya)

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2023 KES '000	2022 KES '000
Interest income	4a	22,861,552	19,546,306
Interest expense	5	(12,899,658)	(9,972,093)
Net interest income		**9,961,894**	**9,574,213**
Fees and commission income		173,712	169,464
Foreign exchange trading income		112,563	91,296
Other income	4b	12,050	342,510
Operating expenses	6	(1,984,625)	(1,848,939)
Expected credit losses	10	(933,394)	(1,236,760)
Operating Profit		**7,342,200**	**7,091,784**
Finance cost	11	(54,392)	(35,201)
Profit before taxation		**7,287,808**	**7,056,583**
Taxation	12	(1,582,444)	(1,849,913)
Profit for the year		**5,705,364**	**5,206,670**
Other comprehensive income:			
Fair value gains on investments in financial instruments measured at FVOCI	13	(3,674,971)	(2,229,771)
Other comprehensive income for the year net of taxation		**(3,674,971)**	**(2,229,771)**
Total comprehensive income		**2,030,393**	**2,976,899**
Earnings per share			
Eanings per share		57.65	52.61
Dividend			
Proposed final dividend for the year		2,969,150	2,969,150
Dividend per share (KES per share)		30.00	30.00

The accounting policies on pages 20 to 34 and the notes on pages 35 to 57 form an integral part of the financial statements.

Statement of financial position

	Note(s)	2023 KES '000	2022 KES '000
Assets			
Cash in hand	14	441,010	323,410
Balances with Central Bank of Kenya	15	8,003,012	6,512,268
Government securities	16	112,134,275	118,125,228
Deposits and balances due from other banking institutions	17	11,491,895	6,228,039
Other assets	18	583,910	611,933
Loans and advances(net)	19	67,785,362	60,591,657
Investment securities	20	19,508	19,529
Current tax receivable	12	408,083	61,805
Right of use asset	22	296,433	347,991
Intangible assets	21	7,772	7,388
Property and equipment	23	630,822	676,833
Deferred tax	24	136,366	269,079
Total Assets		**201,938,448**	**193,775,161**
Equity and Liabilities			
Liabilities			
Customer deposits	25	170,126,801	163,329,798
Balances due to Central Bank of Kenya		2,002,671	0.00
Deposits and balances due to other banking institutions	26	690,865	375,220
Other liabilities	27	877,861	893,446
Lease liabilities	27	339,217	336,903
Total Liabilities		**174,037,415**	**164,935,367**
Equity			
Share capital	28	1,979,434	1,979,434
Fair value reserve	29	(5,917,979)	(2,243,008)
Statutory loan loss reserve	30	139,060	
Retained income		28,731,368	26,134,218
Proposed dividends	31	2,969,150	2,969,150
Total Equity		**27,901,033**	**28,839,794**
Total Equity and Liabilities		**201,938,448**	**193,775,161**
Off balance sheet items			
Letters of credit, guarantees and acceptances		5,090,518	4,820,390
Bills sent for collection		4,115,010	3,001,665
Forwards, spots, swaps and options		205,280	416,195
		9,410,808	**8,238,250**

The annual financial statements and the notes on pages 16 to 57, were approved by the board of directors 2024 and were signed on its behalf by:

Managing Director

Non-Executive Director

Executive Director

For: AFRICA REGISTRARS - CO. SECRETARY

Company Secretary

Statement of Changes in Equity

	Share capital KES '000	Fair value reserve KES '000	Statutory loan loss reserve KES '000	Total reserves KES '000	Retained income KES '000	Proposed dividends KES '000	Total equity KES '000
Balance at January 01, 2023	**1,979,434**	**(2,243,008)**	**-**	**(2,243,008)**	**26,134,214**	**2,969,150**	**28,839,790**
Total comprehensive income for the year	-	(3,674,971)	139,060	(3,535,911)	5,566,304	-	2,030,393
Total adjusted balance	**1,979,434**	**(5,917,979)**	**139,060**	**(5,778,919)**	**31,700,518**	**2,969,150**	**30,870,183**
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, 2023	**1,979,434**	**(5,917,979)**	**139,060**	**(5,778,919)**	**28,731,368**	**2,969,150**	**27,901,033**
Balance 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	**1,979,434**	**(2,243,008)**	**-**	**(2,243,008)**	**29,103,368**	**2,969,150**	**31,808,944**
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**

Statement of Cash Flows

Cash flows from operating activities

	Note(s)	2023 KES '000	2022 KES '000
Cash flows from operating activities			
Cash generated from operations	32	211,324	10,628,379
Finance cost	11	(54,392)	(35,201)
Tax paid	12	(1,914,358)	(2,248,767)
Net cash from operating activities		**(1,757,426**	**8,344,410**
Cash flows used in investing activities			
Purchase of property and equipment	23	(22,430)	(45,482)
Sale of property and equipment	23	-	57,068
Purchase of intangible assets	21	(3,550)	(8,220)
Sale/(Purchase) of government securities		6,512,354	(6,930,534)
Net cash used in investing activities		**6,486,374**	**(6,927,168)**
Cash flows used in financing activities			
Payment on lease liabilities		(151,454)	(155,803)
Dividends paid		(2,969,150)	(2,969,150)
Net cash used in financing activities		**(3,120,604)**	**(3,124,953)**
Net movement in cash and cash equivalents for the year		**1,608,344**	**(1,707,711)**
Cash in hand at the beginning of the year	14	323,410	373,043
Balance with the Central Bank of Kenya at the beginning of the year	15	6,512,268	8,170,344
Total Cash and cash equivalents at end of the year	14&15	**8,444,022**	**6,835,676**

CLIMATE RELATED RISK MANAGEMENT

The Bank is cognizant of the dangers and possibilities that climate change poses for business. Our understanding is that climate change and business are inextricably linked; it is likely to increase the Bank's financial institutions' credit, market, and operational risks. The Bank is committed to handle climate-related risks and exploit the possibilities that come with it. Towards this, Bank has put in place approaches to embed climate risk governance in the corporate governance system, climate risk management in the risk management framework and organization processes such as lending and operations, and enhance reporting and disclosure within the framework of international and local evolving frameworks, and ensure compliance.

Bank has developed a plan in compliance with CBK regulation to integrate climate related risk management into our banking, towards mitigating the bank's exposure to climate risk as well as tap into the opportunities presenting themselves in green financing especially on the sectors of our strategic interest.

Bank has set a foundation to prevent potential climate change related impacts to our performance and the welfare or our customers and other stakeholders, through an elaborate climate related risk management plan submitted to CBK and under implementation.

With the emerging focus on green financing and climate related risk management for banks, there is still low capacity within the bank staff, management and governance on this subject. This limit the banks' ability to become a front runner in this space that is increasingly becoming important for investors and governments globally.

There is also enormous opportunity to tap into green financing facilities targeting climate smart agriculture, renewable energy, and green buildings, sectors within which we have provided market leadership among our peers. As the Bank explores the best strategy to implement green financing, The Bank partnered with Lukenya University for their efforts in planting of trees under CSR activities.

There has been further progress with the university and other agencies for creating a platform to include various other member society. Projects like gifting trees, Socio-environmental program, livelihood projects, millet program, sustainability commitment calendar are under discussions.
Also at the Head office electrical systems have been outfitted with auto-cut timers and integrated sensor-based light systems

Climate change is increasingly becoming a threat to the economy and by extension directly impacts on the banks performance, having great effect on operations and lending as a result on its physical and transitional risks

The Bank is exploring and pursuing low cost financing, grants or guarantees available for green financing for our strategic sectors. The Bank will aim to achieve effective risk management including assessment, measurement, mitigation and provisioning of advances that factors climate related risks.

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 Inter pretations 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 depreciation
Building	Staright line	Over the remaining lease period
Furniture and fitings	Reducing balance	12.5
Motor vehicles	Reducing balance	25
IT equipment	Straight line	Over 3 years
Leasehold improvements	Straight line	Over 10 years

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:

omputer 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.

Debt instruments at fair value through other comprehensive income

Classification

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 23 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 9).
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-ofuse asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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; and*

(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 estimate.

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

Odinary 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 creditimpaired 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.terest and charges).

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.

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:

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. 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.

The company has adopted the amendment for the first time in the 2023 annual report and financial statements.

The impact of the amendment is not material.

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.
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:

Ammendment to IFRS 16 - '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.

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 shareholders 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.


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Open doors to financial growth with our
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Perfect for businesses and individuals looking to make the most of their funds, without sacrificing liquidity.
Premier Current Account
Interest Bearing Current Account


Navigating the Future...
Cutting-Edge Digital Banking Solutions
Baroda MOBI Kenya
BARODA CONNECT Internet Banking
BARODA mPassbook Kenya
Baroda cards

NOTES TO THE ANNUAL AND FINANCIAL STATEMENTS

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.

	Balance sheet nominal		Risk weighted	
	2023	2022	2023	2022
Cash in hand	441,010	323,410	-	-
Balances with Central Bank of Kenya	8,003,012	6,512,268	-	-
Governement securities	112,134,275	118,125,228	-	-
Deposits and balances due from other banking institutions	11,491,895	6,228,039	2,298,379	1,245,608
Other assets	583,910	611,933	583,910	611,933
Loans and advances to customers	67,785,362	60,591,657	59,696,311	53,295,707
Investment securities	19,508	19,529	19,508	19,529
Current tax receivable	408,083	61,805	408,083	61,805
Right of use asset	296,433	347,991	296,433	347,991
Intangible assets	7,772	7,388	7,772	7,388
Property and equipment	630,822	676,833	630,822	676,833
Deferred tax	136,366	269,079	136,366	269,079
	201,938,448	**193,775,161**	**64,077,584**	**56,535,874**
Off balance sheet position	9,410,808	8,238,250	8,757,954	7,900,099
Less: Market Risk qualifying Assets included in above	(19,508)	(19,529)	(19,508)	(19,529)
Adjusted credit risk weighted assets	**211,329,748**	**201,993,882**	**72,816,030**	**64,416,444**
Market risk				
Total Market Risk Weighted Assets Equivalent	14,090,155	17,810,591	14,090,155	17,810,591
Operational Risk Equivalent Assets	17,303,515	17,323,407	17,303,515	17,323,407
Total market risk capital charge	**31,393,670**	**35,133,999**	**31,393,670**	**35,133,999**
Total market risk weighted assets	**242,723,418**	**237,127,881**	**104,209,700**	**99,550,442**

	2023 KES '000	2022 KES '000
Capital adequacy requirement calculation		
Tier I -Core Capital	**33,543,586**	**30,813,722**
Add: Paid-up ordinary share capital	1,979,434	1,979,434
Retained earnings and other reserves	25,995,154	23,896,698
Net after tax profits for the current year	5,705,364	5,206,670
Less: Deferred Tax Asset	(136,366)	(269,079)
Tier II -Supplementary Capital		
Add: Statutory Loan Reserve	139,060	-
Total Capital	**33,682,646**	**30,813,722**
Total deposit liabilities	170,126,801	163,329,798

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 Requirement	
	2023	**2022**	**2023**	**2022**
Core capital to total risk weighted assets	32.19%	30.95%	10.50%	10.50%
Total capital to total risk weighted assets	32.32%	30.95%	14.50%	14.50%
Core capital to deposit liabilities	19.72%	18.87%	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 requirment 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.

- 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.
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. - 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 56.57% (2022: 60.95%) of Bank`s total assets; 35.78% (2022: 31.27%) 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 92.1% (20212: 89.1%) of the loans and advances portfolio is categorised out of which
- Watch Accounts of 38.4% (2022: 14.7%) are considered to be past due but not impaired.
- Loans and advances portfolio share of 7.8% (2022: 10.9%) 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 information available to assess the credit risk on investment securities.

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 iquidity 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 (4.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 75.5% (2022: 79.7%) 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.

3. Financial instruments and risk management

Liquidity risk

At December 31, 2023

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	441,010	-	-	-	-	**441,010**
Balances with Central Bank of Kenya	463,779	-	-	-	7,539,233	**8,003,012**
Governement securities	9,183,471	3,303,708	-	8,424,388	91,222,708	**112,134,275**
Deposits and balances due from other banking institutions	11,491,895	-	-	-	-	**11,491,895**
Other assets	68,339	173,074	408,083	130,193	212,304	**991,993**
Loans and advances to customers	29,568,669	4,414,626	1,336,400	4,363,837	28,101,830	**67,785,362**
Investment securities	-	-	-	-	19,508	**19,508**
Intangible assets	-	-	1,554	1,554	4,663	**7,772**
Right of use asset	296,433	-	-	-	-	**296,433**
Property and equipment	-	-	72,322	-	558,500	**630,822**
Deferred tax	-	-	-	-	136,366	**136,366**
Total assets	**51,513,596**	**7,891,408**	**1,818,359**	**12,919,972**	**127,795,112**	**201,938,448**
Liabilities and shareholders' equity						
Customer deposits	97,092,200	33,426,524	35,920,172	3,461,560	226,345	**170,126,801**
Deposits due to other banking institutions	690,865	-	-	-	-	**690,865**
Lease Liabilities	-	-	-	-	339,217	**339,217**
Other liabilities	433,177	382,317	-	62,367	-	**877,861**
Shareholders' equity	2,969,150	(5,917,979)	5,705,364	139,060	25,005,438	**27,901,033**
Total liabilities and equity	**101,185,392**	**27,890,862**	**41,625,536**	**3,662,987**	**25,571,000**	**199,935,777**
Net liquidity gap as at December 31, 2023	**(49,671,796)**	**(19,999,454)**	**(39,807,177)**	**9,256,986**	**102,224,112**	**-**
At December 31, 2022						
Total assets	48,687,155	8,412,858	3,475,066	8,036,096	125,163,987	193,775,161
Total liabilities and equity	66,078,590	26,777,133	58,800,211	18,541,348	23,577,879	193,775,161
Net liquidity gap as at December 31, 2022	**(17,391,435)**	**(18,364,275)**	**(55,325,145)**	**(10,505,253)**	**101,586,108**	**-**

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.

Financial instruments and risk management

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 changes.
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 31,2023

	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	441,010	-	-	-	-	-	**441,010**
Balances with Central Bank of Kenya	463,779	-	-	-	-	7,539,233	**8,003,012**
Governement securities	9,183,471	3,303,708	-	8,424,388	91,222,708	-	**112,134,275**
Deposits and balances due from other banking institutions	11,491,895	-	-	-	-	-	**11,491,895**
Loans and advances to customers	29,568,669	4,414,626	1,336,400	4,363,837	23,681,935	4,419,895	**67,785,362**
Investment securities	-	-	-	-	-	19,508	**19,508**
Intangible assets	-	-	-	-	-	7,772	**7,772**
Right of use asset	-	-	-	-	-	296,433	**296,433**
Property and equipment	-	-	-	-	-	630,822	**630,822**
Deferred tax	-	-	-	-	-	136,366	**136,366**
Total assets	**51,148,824**	**7,718,334**	**1,336,400**	**12,788,225**	**114,904,643**	**14,042,022**	**201,938,448**
Cash flow interest rate risk							
Liabilities and shareholders' equity							
Customer deposits	81,546,155	33,426,524	35,920,172	3,461,560	226,345	15,546,045	**170,126,801**
Deposits due to other banking institutions	690,865	-	-	-	-	-	**690,865**
Lease Liabilities	-	-	-	-	339,217	-	**339,217**
Other liabilities	-	382,317	-	62,367	-	433,177	**877,861**
Shareholders' equity	-	-	-	-	-	27,901,033	**27,901,033**
Total liabilities and equity	**82,237,020**	**33,808,841**	**35,920,172**	**3,523,927**	**565,562**	**43,880,255**	**199,935,777**
Interest sensitivity gap as at December 31, 2023	**(31,088,196)**	**(26,090,507)**	**(34,583,772)**	**9,264,298**	**114,339,081**	**(29,838,233)**	**-**
At December 31, 2022							
Total assets	48,407,721	8,240,195	3,323,342	7,913,903	113,956,884	11,933,116	193,775,161
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 December 31, 2022	**(3,420,649)**	**(20,779,945)**	**(50,270,200)**	**(10,627,445)**	**113,285,987**	**(28,187,746)**	**(0)**

Cash flow interest rate risk

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

2023	KES	USD	GBP	Euro
Government securities	12.69%	-	-	-
Overall Average Yield of placements (due from banks)	9.00%	-	-	-
Loans and advances to customers	13.78%	9.72%	1.29%	8.76%
Customer deposits	9.06%	1.58%	7.75%	-
Overall Average cost of borrowings (due to banks)	11.47%	-	-	
2022	**KES**	**USD**	**GBP**	**Euro**
Government securities	12.20%	-	-	-
Overall Average Yield of placements (due from banks)	6.52%	-	-	-
Loans and advances to customers	12.58%	7.96%	6.86%	7.16%
Customer deposits	7.75%	-	-	-
Overall Average cost of borrowings (due to banks)	9.61%	-	-	-

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondant 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 currency positions are detailed below:

At 31 December 2023	USD	GBP	EUR	Others
Assets				
Cash and Bank balances	65,468	8,754	8,965	-
Balances with Central Bank of Kenya	353,297	53,215	50,780	6,488
Deposits due from other banking institutions	61,069	4,889,757	34,182	175,429
Loans and advances to customers	17,520,388	-	451,082	-
Total assets	18,000,222	4,951,726	545,009	181,917
Liabilities and shareholders' equity				
Customer deposits	26,692,362	74,960,801	243,693	-
Deposits due to other banking institutions	-	-	139,450	145,777
Total liabilities and equity	26,692,362	74,960,801	383,143	145,777
Net statement of financial position gap	**(8,692,140)**	**(70,009,075)**	**161,866**	**36,140**
Off balance sheet net notional position	-	-	-	30,489
At December 31, 2022				
Total assets	17,108,543	3,744,370	335,920	167,710
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)**

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 riskmitigation 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.

Notes to the Annual and Financial Statements (Continued)

4a interest income

	2023 KES '000	2022 KES '000
Revenue from contracts with customers		
Loans and advances to customers	7,460,974	5,995,292
Government securities	14,764,896	13,436,528
Deposits and balances due from banking institutions	635,682	114,486
	22,861,552	**19,546,306**

Disaggregation of revenue from contracts with customers

The bank disaggregates revenue from customers as follows:

	2023 KES '000	2022 KES '000
Timing of revenue recognition		
Over time		
Placements with other banks	635,682	114,486
	635,682	**114,486**
Over time		
Government securities	14,764,896	13,436,528
Loans and advances to customers	7,460,974	5,995,292
	22,225,870	19,431,820
	22,861,552	**19,546,306**

4b Other income

	2023 KES '000	2022 KES '000
Recoveries of advances previously impaired	11,102	279,995
Dividend income	681	1,020
Gain on disposal of property and equipment	-	52,539
Securities trading income	-	8,636
Miscellaneous income	162	206
Rental income	105	114
Total other income	**12,050**	**342,510**

5 Interest expense

	2023 KES '000	2022 KES '000
Term deposits	12,600,494	9,766,589
Current and savings accounts deposits	165,158	175,318
Deposits and balances due to other banking institutions	134,006	30,186
	12,899,658	**9,972,093**

6 Operating expenses

	2023 KES '000	2022 KES '000
Staff costs (Note 8)	1,096,618	960,148
Directors' emoluments as executives	26,284	24,101
Depreciation and amortisation	72,322	88,440
Auditors remuneration - current year fees	10,967	10,071
Contribution to Deposit Protection Fund	230,227	208,815
Operating lease rent	97,093	129,498
Administration expenses (Note 9)	359,919	317,448
Establishment expenses (Note 10)	91,195	110,418
	1,984,625	**1,848,939**

7 Staff costs

	2023 KES '000	2022 KES '000
Salaries and wages	839,264	709,760
National Social Security Fund (NSSF) - Employer's contribution	54,459	48,073
Fringe benefits	6,366	1,070
Staff leave	20,527	14,284
Staff medical	34,179	34,026
Staff training	1,282	1,415
Other staff expenses	140,541	151,520
	1,096,618	**960,148**

8 Staffcosts (Continued)

Number of employees during the year	2023	2022
Management	149	152
Supervisory	4	4
Unionisable	101	85
	254	241

9 Expenses details

	2023	2022
(a) Administrative expenses	**KES '000**	**KES '000**
Advertising	30,576	13,960
Computer expenses	98,671	67,582
Donations	1,597	5,985
Subscriptions and periodicals	3,675	3,363
Entertainment	1,276	544
Legal and professional fees	100,542	121,986
Miscellaneous	55,152	43,918
Postages and telephones	8,895	8,557
Printing and stationery	16,941	14,942
Secretarial fees	278	319
Insurance	20,150	20,786
Travelling and motor vehicle	22,166	15,506
	359,919	**317,448**
(b) Establishment expenses		
Electricity and water	21,710	24,394
Insurance	36	169
Licences	4,677	3,945
Office cleaning	2,052	17,229
Repairs and maintenance	62,720	46,675
Addional tax assessement	-	18,006
	91,195	**110,418**

10 Impairment losses on financial assets;

(a) Loans and advances to customers		
Expected credit loss	933,394	1,236,760
	933,394	**1,236,760**

11 Finance costs

Interest on lease liabilties	**54,392**	**35,201**

12 Taxation

Current		
Current year	1,567,080	1,740,807
Prior year over/(under) charge	-	94,102
	1,567,080	**1,834,909**
Deferred		
Current year	15,364	15,004
	15,364	**15,004**
	1,582,444	**1,849,913**

12 Taxation (Continued)

	2023 KES '000	2022 KES '000
Tax paid		
Balance at 1 January	61,805	(334,047)
Prior year overcharge	(1,000)	(112,108)
Current tax for the year recognised in profit or loss	(1,567,080)	(1,740,807)
Tax paid	1,914,358	2,248,767
Balance as at 31 December	**408,083**	**61,805**

13 Other comprehensive income

Components of other comprehensive income

	2023 KES '000	2022 KES '000
Financial assets at fair value through other comprehensive income		
Government securities	(3,674,971)	(2,347,127)
Deferred Tax	-	117,356
	(3,674,971)	**(2,229,771)**

14 Cash in hand

	2023 KES '000	2022 KES '000
Cash and cash equivalents consist of:		
Cash in hand	441,010	323,410

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

	2023 KES '000	2022 KES '000
Balances with Central Bank of Kenya	**8,003,012**	**6,512,268**
- Cash reserve ratio	7,539,233	6,297,151
- Other (available for use by the bank)	463,779	215,117
	8,003,012	**6,512,268**

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 2023 the cash reserve ratio requirement was 4.25% (2022: 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 counterparties 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.

16 Government securities

	2023 KES '000	2022 KES '000
Fair Value through other comprehensive income		
Treasury bonds	**38,285,150**	**42,016,256**
Amortised cost		
Treasury bonds	73,849,125	62,485,745
Treasury bills	-	13,623,227
	73,849,125	**76,108,972**
Total government securities	**112,134,275**	**118,125,228**

16 Government securities (Continued)	2023 KES '000	2022 KES '000
Fair Value through other comprehensive income	38,285,150	42,016,256
Amortised cost	73,849,125	76,108,972
	112,134,275	**118,125,228**
Government securities comprise of:		
Maturing within 91 days	9,183,471	11,954,481
Maturing after 91 days and within a year	3,303,708	7,663,730
Maturing after a year	8,424,388	3,791,761
Maturing after three years	91,222,708	94,715,256
	112,134,275	**118,125,228**

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 2023 and 2022, as all the financial assets were disposed of at their redemption date.

17 Deposits and balances due from other banking institutions		
Balances with banking institutions in Kenya	456,163	2,816,940
Balances with banking institutions abroad	6,285,023	2,072,047
Balances with Bank of Baroda, India	4,750,709	1,339,052
	11,491,895	**6,228,039**

18 Other assets		
Clearing account	204,705	200,524
Other receivables	379,205	411,409
	583,910	**611,933**

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

19 Loans and advances to customers		
Commercial loans	46,107,248	39,109,125
Overdrafts	25,943,268	25,012,717
Bills	154,741	111,221
Gross loans and advances	**72,205,257**	**64,233,063**
Expected credit loss on loans and advances	(4,162,487)	(3,317,421)
Suspended interest	(257,408)	(323,985)
Net loans and advances	**67,785,362**	**60,591,657**

19 Loans and advances to customers (continued)

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 KES. 5.63 Billion (2022: KES 6.016 billion). The amounts are included in the statement of financial position net of expected credit loss provisions of KES. 3.08 Billion (2022: KES 2.47 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 KES 257.41 Million (2022: KES.323.99 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 accrodance with IFRS 9: Financial Instruments:

	2023	2022
At amortised cost	67,785,362	60,591,657

Concentration

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

	2023	2023	2022	2022
	KES `000	%	KES `000	%
Agriculture	2,883,972	3.99%	975,298	1.52%
Manufacturing	16,807,157	23.28%	15,838,406	24.66%
Building and construction	3,528,075	4.89%	3,438,323	5.35%
Mining and quarrying	333,876	0.46%	215,216	0.34%
Energy and water	299,436	0.41%	351,415	0.55%
Trade	19,689,747	27.27%	17,459,780	27.18%
Tourism, restaurants and hotels	2,173,147	3.01%	1,699,812	2.65%
Transport and communication	6,443,358	8.92%	5,554,542	8.65%
Real estate	16,013,248	22.18%	14,637,394	22.79%
Financial services	179,269	0.25%	374,328	0.58%
Social, Community and Personal Households	3,853,972	5.34%	3,688,549	5.74%
	72,205,257	**100%**	**64,233,063**	**100%**

Loans and advances net of credit loss allowance

	2023	2022
	KES `000	KES `000
Stage 1	38,821,689	46,287,673
Stage 2	27,752,428	11,928,902
Stage 3	5,631,140	6,016,488
Gross loans and advances to customers	**72,205,257**	**64,233,063**
Less: Credit loss allowance for loans and advances and suspended interest	**(4,419,895)**	**(3,641,406)**
Net loans and advances to customers	**67,785,362**	**60,591,657**

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	27,752,428	11,928,902

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 2.9 Billion (2022: KES 2.4 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	2023 KES '000	2022 KES '000
Quoted equity investments:		
At start of year	2,162	2,162
Fair value loss	(1,945)	(1,924)
At end of the year	**217**	**238**
Unquoted equity investments:		
At start and end of year	19,291	19,291
	19,508	**19,529**

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

	2023			2022		
	Cost	Accumulated Amortisation	Carrying value	Cost	Accumulated Amortisation	Carrying value
Computer software	34,098	(26,326)	7,772	30,548	(23,160)	7,388
Total	**34,098**	**(26,326)**	**7,772**	**30,548**	**(23,160)**	**7,388**

Reconciliation of intangible assets - 2023

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	7,388	3,550	-	(3,166)	7,772
	7,388	**3,550**	**-**	**(3,166)**	**7,772**

Reconciliation of intangible assets - 2022

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	30,548	-	-	23,160	7,388
	30,548	**-**	**-**	**23,160**	**7,388**

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 assets

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;

Office rental space	296,433	347,991

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	97,063	92,205

The Bank 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 - 2023			
Office rental space	28	1 to 7 years	4 years
Right-of-use asset - 2022			
Office rental space	28	1 to 7 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	619,737	296,433	-	(323,304)
	619,737	**296,433**	**-**	**(323,304)**

23 Property and equipment

	2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	392,499	(35,447)	357,052	392,499	(27,638)	364,861
Furniture and fittings	453,758	(241,888)	211,870	447,755	(211,620)	236,135
Motor vehicles	49,864	(35,876)	13,988	49,864	(31,214)	18,650
Computer and equipment	246,230	(231,428)	14,802	49,864	(217,359)	16,166
Leasehold improvements	208,316	(175,206)	33,110	203,878	(162,857)	41,021
	1,350,667	**(719,845)**	**630,822**	**1,327,521**	**(650,688)**	**676,833**

23 Property and equipment (continued)

Reconciliation of property and equipment - 2023

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	364,861	-	-	-7,809	357,052
Furniture and fittings	236,135	5,467	-	-29,732	211,870
Motor vehicles	18,650	-	-	-4,662	13,988
Computer and equipment	16,166	12,525	-	-13,889	14,802
Leasehold improvements	41,021	4,438	-	-12,349	33,110
	676,833	**22,430**	**-**	**(68,441)**	**630,822**

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	0	-	(11,963)	41,021
	717,266	**45,482**	**(4,529)**	**(81,386)**	**676,833**

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

24 Deferred tax

	2023 KES '000	2022 KES '000
Deferred tax asset		
Deferred tax	136,366	269,079
Reconciliation of deferred tax asset		
At January 01	269,079	166,727
Accelerated capital allowances	-	(27,930)
Provisions	.	12,926
Financial assets at FVOCI	(132,713)	117,356
At December 31	**136,366**	**269,079**

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, when:

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

	2023 KES '000	2022 KES '000
Savings account deposits	10,379,491	12,130,435
Current account deposits	15,546,045	10,855,642
Term deposits	144,201,265	140,343,721
	170,126,801	**163,329,798**
Analysis of customer deposits by maturity		
Payable within 90 days	97,092,201	62,429,373
Payable after 90 days and within one year	35,920,172.45	53,472,962
Payable after one year	37,114,428	47,427,463
	170,126,801	**163,329,798**

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

	2023 KES	2023 %	2022 KES	2022 %
Other institutions and individuals	147,806,744	86.88%	140,639,121	86.11%
Private companies	22,298,752	13.11%	22,629,418	13.86%
Insurance companies	21,305	0.01%	61,259	0.04%
	170,126,801	**100%**	**163,329,798**	**100%**

Included in customer accounts were deposits of KES. 6,280 million (2022: KES. 5,875.805 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

	2023	2022
Parent bank	285,227	243,414
Other banks	405,638	131,806
	690,865	**375,220**
Split between non-current liabilities and current portions		
Current liabilities	690,865	375,220

27 Other liabilities and lease liabilities

(a) Other liabilites

Staff leave and gratuity accrual	471,829	406,489
Bills payable	197,274	162,508
Provisions for impairment on unutilised facilities and off balancesheet items	61,353	63,831
Other liabilities	147,405	260,618
	877,861	**893,446**

(b) Lease liabilities

The maturity analysis of lease liabilities is as follows:	2023	2022
Within one year	152,668	113,277
More than one year	186,549	223,625
	339,217	**336,903**
Less finance charges component	(54,392)	(35,201)
	284,825	**301,702**
Non-current liabilities	186,549	223,625
Current liabilities	152,668	113,277
	339,217	**336,903**

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

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

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.

	2023 KES '000	2022 KES '000
Statutory loan loss reserve	139,060	

31 Dividends

	2023 KES '000	2022 KES '000
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.

	2023 KES '000	2022 KES '000
(a) Compensation to key management		
Short-term employee benefits	79,951	45,395
Post-employment benefits	21,784	18,687
	101,735	**64,082**
(b) Management fees paid		
Related companies	66,674	77,902

Figures in Kenyan Shilling thousand

32 Related party disclosure (continued)

	Related companies		Senior management employees		Other employees	
(c) Outstanding loans and advances	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
At January 1	17,652	17,114	18,873	17,235	607,278	585,455
Advances during the year	-	6,153	6,366	6,429	117,765	168,512
Repayments during the year	(17,652)	(5,616)	(6,271)	(4,791)	(120,390)	(146,688)
At December 31	**-**	**17,652**	**18,969**	**18,873**	**604,653**	**607,278**

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	
(d) Deposits	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
At January 1	506,199	532,999	-	-	4,399	2,819	49,352	99,708
Deposits received during the year	1,158	536,975	-	-	14,447	18,061	460,782	121,404
Withdrawals during the year	(506,726)	(563,775)	-	-	(15,378)	(16,481)	(347,821)	(171,760)
At December 31	**631**	**506,199**	**-**	**-**	**3,468**	**4,399**	**162,313**	**49,352**

	2023 KES '000	2022 KES '000

32 Related party disclosures (continued)

(e) Directors emoluments

Allowances	26,284	24,101
	26,284	**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

Profit before taxation	7,287,808	7,056,583
Adjustments for:		
Depreciation and amortisation	168,670	176,193
Gain on sale of property and equipment	-	(52,539)
Finance costs	54,392	35,201
Changes in working capital:		
Loans and advances to customers	(7,054,645)	(6,067,648)
Placement with and loans and advances to other banking institutions	(5,263,856)	(3,477,761)
Other assets	(28,023)	68,051
Due to local banking institutions	2,318,316	-922,981
Customer deposits	2,713,076	13,957,813
Other liabilities	15,585	-144,533
	211,324	**10,628,379**

34 Off-balance sheet financial instruments, contingent liabilities and committments

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

Spots	31,500	401,348
Letters of credit	1,334,270	1,735,443
Guarantees	3,756,248	3,084,947
Bills sent for collection	4,115,010	3,001,665
Forwards	173,780	14,847
	9,410,808	**8,238,250**

34 Off-balance sheet financial instruments, contingent liabilities and committments (continued)

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.

	2023 KES '000	2022 KES '000
Commitments		
Undrawn formal stand-by facilities, credit lines	6,179,962	5,244,487

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.

The pending litigation claims relate to cases instituted by third parties against the Bank. Judgement in respect of these cases had not been determined as at 31 December 2023. The directors are of the opinion that no liabilities will crystallise.

35 Currency

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

36 Comparative figures

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

37 Earnings per share

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

	2023	2022
Net income for the period attributable to shareholders (Kshs `000)	5,705,364	5,206,670
Number of ordinary shares in issue (Absolute)	98,971,676	98,971,676
Earnings per share	57.65	52.61

38 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.

39 Events after the reporting period

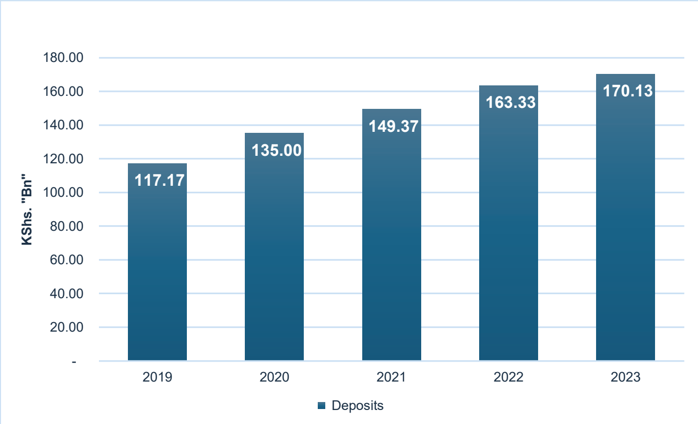
The directors of the bank are not aware of any events after the reporting period; which may have a significant impact on the operational existance or on the financial perfromance of the Bank for the period.

APPENDIX

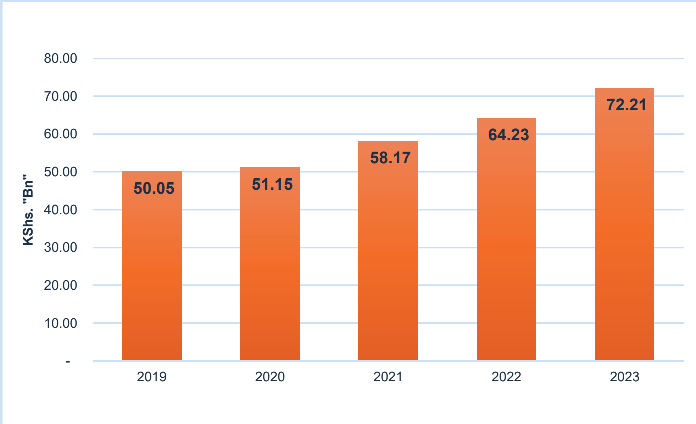
III	OTHER DISCLOSURES	2023 Shs. '000'	2022 Shs. '000'
	1.0 NON-PERFORMING LOANS AND ADVANCES		
	(a) Gross Non-performing loans and advances	5,631,140	6,016,488
	(b) Less: Interest in Suspense	257,408	323,987
	(c)Total Non-Performing Loans and Advances (a-b)	**5,373,732**	**5,692,501**
	(d) Less: Loan Loss Provision	3,080,754	2,474,571
	(e) Net Non-Performing Loans and Advances(c-d)	**2,292,978**	**3,217,930**
	(f) Discounted Value of Securities	2,292,978	3,217,930
	(g) Net NPLs Exposure (e-f)	-	-
	2.0 INSIDER LOANS AND ADVANCES		
	(a) Directors, Shareholders and Associates	-	-
	(b) Employees	613,836	644,070
	(c)Total Insider Loans and Advances and other facilities	**613,836**	**644,070**
	3.0 OFF-BALANCE SHEET ITEMS		
	(a)Letters of credit,guarantees, acceptances	5,090,518	4,820,389
	(b) Forwards, swaps and options	205,280	416,195
	(c)Other contingent liabilities	4,115,010	3,001,666
	(d)Total Contingent Liabilities	**9,410,808**	**8,238,250**
	4.0 CAPITAL STRENGTH		
	(a)Core capital	**33,543,586**	**30,813,723**
	(b) Minimum Statutory Capital	**1,000,000**	**1,000,000**
	(c)Excess/(Dificiency)(a-b)	**32,543,586**	**29,813,723**
	(d) Supplementary Capital	**139,060**	**-**
	(e) Total Capital (a+d)	**33,682,646**	**30,813,723**
	(f)Total risk weighted assets	**104,209,700**	**99,550,442**
	(g) Core Capital/Total deposits Liabilities	**19.72%**	**18.87%**
	(h) Minimum statutory Ratio	8.00%	8.00%
	(I) Excess/(Deficiency) (g-h)	11.72%	10.87%
	(j) Core Capital / total risk weighted assets	**32.19%**	**30.95%**
	(k) Minimum Statutory Ratio	**10.50%**	10.50%
	(l) Excess (Deficiency) (j-k)	21.69%	20.45%
	(m) Total Capital/total risk weighted assets	**32.32%**	**30.95%**
	(n) Minimum statutory Ratio	14.50%	14.50%
	(o) Excess/(Deficiency) (m-n)	17.82%	16.45%
14	LIQUIDITY		
14	**(a) Liquidity Ratio**	**75.51%**	**79.66%**
14.2	**(b) Minimum Statutory Ratio**	**20.0%**	**20.0%**
14.3	(c) Excess (Deficiency) (a-b)	55.5%	59.7%

FINANCIAL HIGHLIGHTS

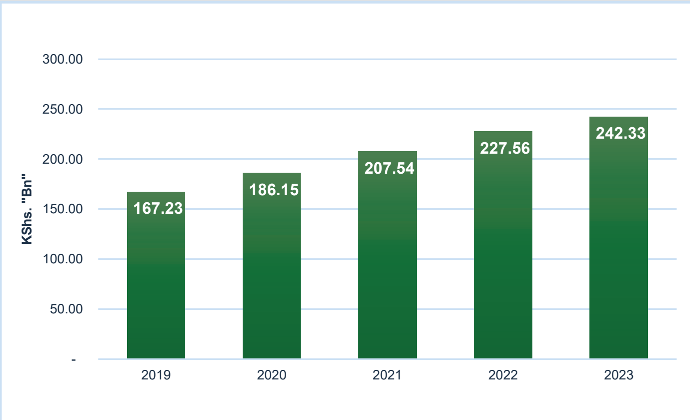
TOTAL DEPOSITS



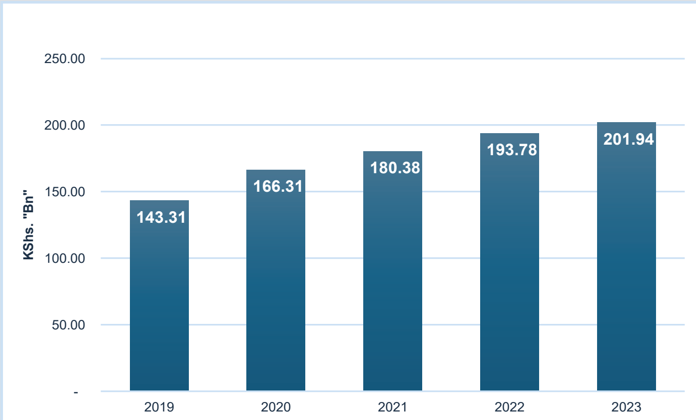
TOTAL ADVANCES



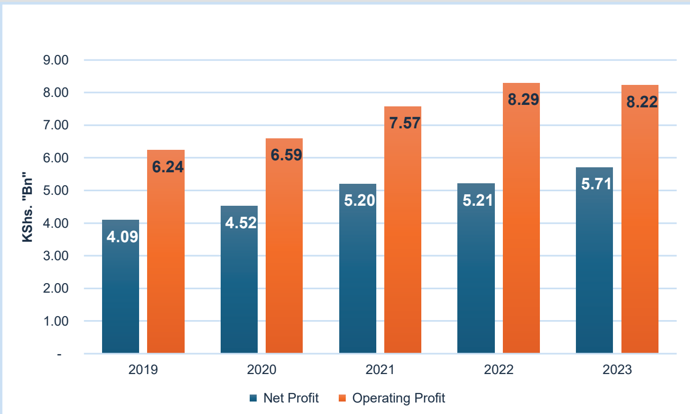
TOTAL BUSINESS VOLUME



TOTAL ASSETS



PROFITABILITY



YOUR MOST TRUSTED BANK 70 YEARS

HIGHLIGHTS 2023

70 Years Celebration at Baroda House

Bank Officials with IHC HE Namgya C. Khampa and
DY. IHC MR.ROHIT VADHWANA

70 years celebration at Baroda House

Launch of Baroda world Sales and Service centre at Imara Mall Nairobi

HIGHLIGHTS 2023

Business Seminar on Behavioral Finance - How Human Psychology & Emotions Influence Financial Decision Making

Bank staff at seminar

Seminar speaker Mr Scott Bellows

Business Seminar on the Art of investing in stock market

Bank staff with Mr. Anil Singhvi

Business Seminar on Artificial Intelligence in Finance How AI is revolutionizing future of Finance

Seminar speakers Joel Onditi & Charlotte Kepadisa

ICAI Seminar participants

International Womens Day

CSR Activities

Lukenya University Tree Planting

Railway Training Institute, Nairobi Tree Planting

Job Shadow Week

KICC SME Camp

Annual Budget Meeting

Annual General Meeting (2023)

Social Media Launch

KIB INTERBANK SPORTS 2023

Football Team

Netball Team

9th International Day of Yoga organised by the High Commission of India.

NOTES

The Asian weekly Achiever Awards

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