Caritas
MICROFINANCE BANK



2022
ANNUAL REPORT & FINANCIAL STATEMENTS



Overall Best Microfinance Bank In Kenya

With utmost humility and profound honor, we gratefully appreciate the title of 'Overall Best Microfinance Bank in Kenya' that was awarded to us at the Think Business Awards 2023.

SNAPSHOT OF CARITAS MFB

"Caritas Microfinance Bank was founded by the Catholic Archdiocese of Nairobi and launched in June 2015 as a deposit taking microfinance institution.

We exist to provide up scaled financial services to our customers enabling them to safe guard their future and be able to take care of their financial needs.

We have grown to become one of the leading & fastest growing microfinance banks, offering a range of services, including current and savings accounts, term loans and asset finance, LPO finance, insurance and foreign exchange solutions."

Vision

The household financial services provider that adds value to all

Mission

We provide ethically driven financial solutions to achieve distinctive customer experience in a convenient and innovative way while growing our stakeholders value

Core Values

- Customer Centric
- Accountability& Professionalism
- Reliability
- Integrity
- Teamwork
- Accessible& Responsive
- Stewardship



2.85Bn
Deposits



2.24Bn
Loans & Advances



42K
Customers



696K
Capital



7 Branches
3 Marketing Offices

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Bank Information

Principal place of business

Cardinal Otunga Annex
Cardinal Otunga Street
P.O. Box 15352-00100
Nairobi, Kenya

Registered Office

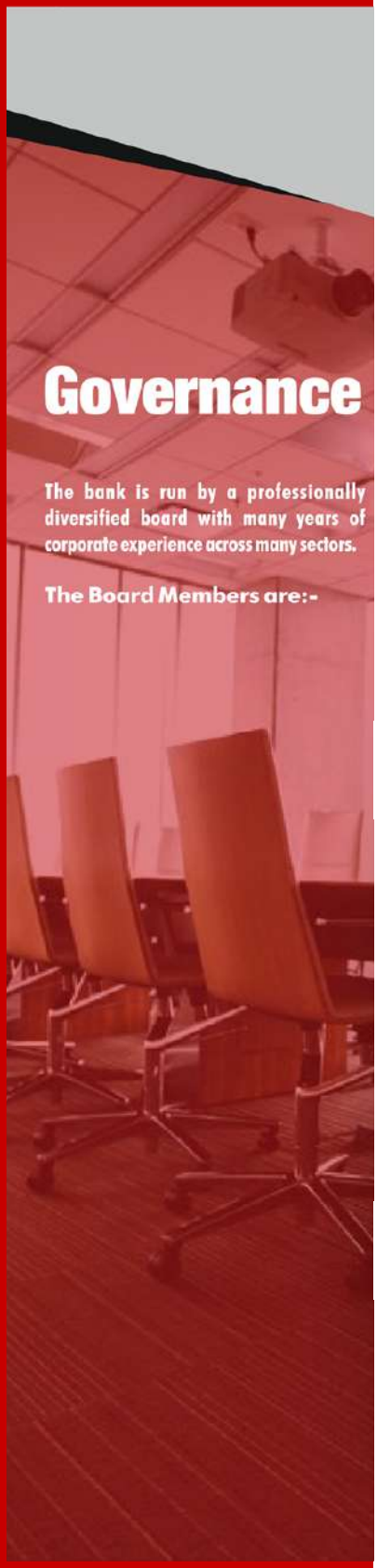
LRNO 209/13626, Nairobi
Kaunda, Street
P.O. Box 14231-00800
Nairobi, Kenya

Company Secretary

Image Registrars Limited
P.O. Box 9287-00100
Nairobi, Kenya

Independent Auditor

PricewaterhouseCooper LLP
PWC Tower, Waiyaki way, Chiromo Road
P.O. Box 43963-00100
Nairobi, Kenya





CPA Patrick Kariuki Kinyori
Chairman



Fr. Simon Ng'ang'a
Director



Sr. Mary Mbaci
Director



Dr. AnneMary Nkirote
Director



Prof. Peter Kiriri
Director



Mr. Graham Waliaula
Director



Mr. George Thogo
Director

Management of the Bank

The Bank is run by a dedicated and committed management team led by the Chief Executive Officer who is assisted by a senior management team.



David Mukaru
Chief Executive Officer



CPA Denis Ochenge
Head of Business Development



CPA Amon Kariuki
Head of Finance& Strategy



Ruth Kimani
Head of ICT



CPA Geoffrey Bundi
Head of Audit, Risk& Compliance



CHRP Everlyne Mutuku
Head of HR & Admin



FA Sospeter Wafula Sitati
Ag. Head of Credit



Dennis Nderitu- AKIB
Ag. Head of Operations

CHAIRMAN'S SPEECH



CPA Patrick Kariuki Kinyori

Chairman

My dear esteemed shareholders, stakeholders, members of staff, and our valued customers.

It gives me great pleasure to submit to you the 2022 Annual Report and to also welcome you to this 8th Annual General Meeting of Caritas Microfinance Bank. The year 2022 was an eventful year for our bank and despite various emerging socio-economic challenges both locally and globally; the bank posted impressive results and managed to be among the four microfinance banks in Kenya that posted profits. This was due to a dedicated Board of Directors and a committed member of staff.

According to the Central Bank of Kenya 'Bank Supervision Annual Report of 2022' our microfinance bank increased its market share from 4.3% in 2021 to 5.2% in 2022 in the microfinance sub-sector. This means that the bank graduated from being a Medium Peer MF Bank (Tier 2) to being among the Larger Peer Group (Tier 1), that comprises ourselves and three more.

Bank Performance Highlights

Ladies and gentlemen, the year 2022 realized a significant growth in several areas of the business. These areas include:

- **Total assets**- recorded a 14% growth to Shs 3.4 billion up from Shs. 3.0 Billion in 2021.
- **Deposits**- grew by 12% to Shs. 2.8 Billion from Shs. 2.5 Billion in 2021.
- All these improvements enabled the bank to realize a profit growth Shs. 39.5 Million compared to a profit before tax of Shs. 16.8 Million in 2021.

Business Expansion and Growth.

The bank has continued to implement the expansion strategy as envisaged in the current strategic plan. In the year 2022, there was significant focus in revamping and strengthening digital assets to promote efficiency and improve customer experience. The bank launched a revamped mobile banking platform that allows customers to receive funds and make payments at their convenience.

In this year (2023), the bank has already opened a branch in Nakuru, and other branches shall be opened during the year in strategic areas of high business potential. Plans to open branches and Marketing offices in Nyeri, Githurai, Kiambu are at advanced stages. Feasibility studies are complete for Kisumu, Homabay and Eldoret.

Caritas Bancassurance Intermediary

Caritas Bancassurance Intermediary Limited is a now 100% fully owned by the bank. We have capitalized the subsidiary and instituted a board to comply with both Insurance regulatory and Central Bank guidelines.

Caritas Bancassurance Intermediary Limited had an exceptional year in terms of performance and financial growth in 2022, posting a growth rate of over 90% compared to the previous year. With the aligned structures and support from the bank, the subsidiary is poised to record impressive performance in the years to come.

CHAIRMAN'S SPEECH

Business Strategy

The general outlook of our second strategic plan (2021-2025) remains favorable and promising. This year marks the half way mark in the implementation of the strategic plan and we are taking stock of the hits and misses, and to make adjustments where necessary in light of the prevailing high inflation and the ongoing effects of Covid-19 and the Global recession. The banking sector continues to face the effects of high interest rates, bringing stress in financial markets.

To align the business strategy to the fast-changing business environment, the board and management reviewed and redefined the key business focus areas and redefined the key customers segments that constitute our business strong pillars. This exercise dubbed the “Marwa Accord” refocused the bank to the church and self-help groups as strong pillars within the Catholic ecosystem. The plan will enable the bank to have a strong spring board in reaching out to other businesses ecosystems in the country. The bank has reached out to Banca Etica of Italy for e-business collaboration. During the period under review two directors and the CEO visited Italy at the invitation of this Italian bank to explore areas of such collaboration.

Corporate Governance

The board has and will continue to provide exceptional leadership driven by its desire to aim at the highest tenents of good corporate governance and business ethics. The board continues to guide the bank to realize growth and profitability to ensure a good return on investment to the shareholders. In this respect, the board has put in place very effective board committees that have upheld sound corporate governance throughout the year, against a backdrop of global economic challenges. The results of this great input by the board is evident in the continued growth of the business.

Capacity Building

To strengthen the capacity of the board to undertake its functions, the board attended various trainings during the year. Trainings focused on emerging and important areas such Environmental, Social and Governance (ESG), Data Protection Act, Taxation, strategy and leadership.

In compliance with the CBK regulations, The board also carried out a board evaluation exercise and identified areas to strengthen the board going forward.

Shareholding

We take note of the support from our shareholders in strengthening the bank’s capital base. The shareholders injected an additional capital to the bank of Shs. 13.6 million to place the total paid-up capital at Shs. 683 Million out of Shs. 700 Million.The Board of Directors shall be allotting equally 15,000,000 shares of Shs. 20 per share (Shs 300 Million) to the existing shareholders in the course of this year to fund the anticipated growth and expansion objectives.

Awards and Accolades

During the 2023 Think Business Banking Awards, our bank performed very well. This annual Banking Awards acknowledge top banks in the country based on a comprehensive analysis of institutional value, quantitative and qualitative metrics, customer value, and sustainable excellence.

The bank proudly received the following awards:

- Overall Best Microfinance Bank in Kenya 2023
- Fastest Growing Microfinance Bank in Kenya 2023 – this was the 5th year in a row (2018,2019,2020,2021,2022)
- 1st Runners Up in Customer Service
- 1st Runners Up under Most Efficient Microfinance Bank

CHAIRMAN'S SPEECH

I congratulate the board, management and staff for this great achievement. We dedicate these awards to our customers and shareholders for their continued trust and support.

Outlook

The Bank will continue to focus on service excellence as the key differentiator. Consequently, the bank looks to improve its service delight across our key touch points as well as aggressively build and revamp our digital capability.

We shall also continue to focus on technology and innovation which are now critical components in the financial sector. The building and continuous improving of our digital capabilities has and will always be the gateway to our delivery of the best in customer service. We shall also continue to enhance our digital capabilities and strengthen our strategic partnerships to bring a variety of channels and services to our customers.

We shall listen and learn from our customers as a driving force in positioning the Bank as the microfinance of choice committed to meeting their needs by offering customized and up scaled financial services.

Finally, I do appreciate the support I have received from His Grace Archbishop Philip Anyolo, Bishop Kamau, Shareholders and the whole of Caritas MFB fraternity for the good results this past year. I urge all of us to put in the same effort in 2023 and look forward to celebrating together after achieving great and better performance.

May God bless you and our great Bank!

CPA PATRICK KINYORI, FKIM
CHAIRMAN-BOARD OF DIRECTORS

CEO'S STATEMENT



David Mukaru
CEO

Dear Shareholders,
On behalf of management and staff, it is my humble duty to present to you the Caritas Microfinance Bank Consolidated Annual Report for the year ended 31st December 2022.
I Welcome you to the Bank's 8th Annual General Meeting.

The highlight of the year was being recognized as **The Best Microfinance Bank in Kenya 2023**, during **Think Business Banking** Awards ceremony and for that I thank all our clients, shareholders and all our other stakeholders for the support they gave us in 2022.

Economic Highlights
The global and local economy have continued to recover following the uncertainties witnessed in the past few years. Kenya has shown immense resilience as highlighted in the KNBS Economic Survey where the GDP expanded by 4.8% in 2022. The growth was witnessed across all sectors of the economy but was more pronounced in the service sector.

Industry Performance
In the year 2022, the microfinance sector registered a 4.8% decline in total assets to Shs. 70.4 Billion. Net advances decreased by 1.9%, and this was attributed to competition from commercial banks and digital lenders. Asset quality deteriorated with gross NPLs increased by Shs. 14.7 Billion with NPL to gross loans ratio increasing to 32.5%

In terms of market share, Caritas MFB was categorized as a large size Microfinance Bank with a market share of 5.1%. In addition to this, Caritas MFB made the highest profits for the year 2022 out of all fourteen licensed microfinance banks in the country.

The growth of Caritas MFB is a testimony on our joint efforts and commitments of all our stakeholders towards our strategic vision and mission. We are proud of the confidence you have placed in this institution, and we intend to stamp our authority in the market as the ***household financial services provider that adds value to all.***

Caritas Microfinance Bank Performance
The bank registered a 57% growth in profit before tax (PBT) from 17.15Million in 2021 to 39.55Million in 2022. Caritas Bancassurance Intermediary Limited collected premiums worth Shs. 45Million in 2022 which in return translated to Shs. 4.5Million worth of revenue.

This performance was driven by the highlighted factors:

- Growth in the bank's revenue from Shs. 415Million in 2021 to Shs. 506 Million in 2022.
- Customer deposits increased by 11.48% from Shs. 2.5 Billion in 2021 to Shs. 2.8 Billion in 2022.
- Customer loans and advances grew by 9.99% from 1.99 Billion in 2021 to 2.21 Billion in 2022.
- Disbursements to various sectors for the year 2022 are as follows; institutional banking Shs. 641 Million, consumer lending amounted to Shs. 434 Million, micro business lending amounted to Shs. 160 Million, small business lending totaled to Shs. 173 Million, agricultural lending amounted to Shs. 51 Million, and finally digital lending amounted to Shs. 150 Million.
- Our balance sheet expanded by 13.63% from Shs. 2.95 Billion in 2021 to Shs. 3.35 Billion in 2022.
- The bank maintained a positive and healthy position on all prudential ratios being above the minimum required.

CEO'S STATEMENT

Staff Support
Caritas MFB is focused on creating a strong and resourceful human capital. The bank has created a healthy organization culture, adopted different staff motivation strategies, and emphasized on trainings for all staff and board members. All these will be essential in guiding interactions among the staff and all stakeholders.

Strategic Pathway
In the year 2021, the bank launched a five-year Strategic Plan (SP2) that clearly defined our critical success factors. The year 2022 marked the end of the first half of this strategic plan. We are set to carry out the midterm SP review which will help us align with the market realities.

Similarly, the Board of Directors and Management held a working strategic retreat that launched the **Marwa Accord.** It clearly identifies who Caritas MFB clients are and how we can serve them better. The bank will continue to improve the internal processes and improve service delivery, customer experience, system and channels uptime, brand visibility, business growth and staff development.

Partnerships
Partnerships have played a crucial role in our success. We have strengthened our collaboration with the Archdiocese of Nairobi, enabling us to introduce our bank to parishes, schools, health facilities, congregations, and Self-Help Groups. Our goal is to bank corporate and individual clients and offer tailored financial solutions to the clients and staff working in these institutions.
Similarly, we have partnered with Micro Enterprise Support Programme Trust (MESPT), to support the agribusiness customers. This partnership will enable us to penetrate the agribusiness market and allow the farmers to access affordable loans. To this end Caritas has accessed a below the market loan facility of Shs. 100 Million to be on-lend to the agribusiness market.

We have also partnered with Optiven Limited and Waumini Sacco to provide access to land and properties. These partnerships are key in leveraging opportunities for all our staff and customers to acquire property across the country at affordable prices.

Expansion Strategy
The institution recently opened a branch in Nakuru where we intend to spread its wings to its vicinity as we impact life through our various financial solutions. We also plan to open four more branches in Kiambu, Githurai, Ruiru, and Nyeri. To increase our footprint further, the bank will establish marketing Desk in Archdiocese of Kisumu and Diocese of Homabay, thus enhancing our brand presence towards the west of the country.

Digital Transformation
The bank has adopted various channels like Caritas Pay, Lipa Na Caritas, internet banking and agency banking, that will help reach a large customers base and improve our efficiency. We are not oblivious of the challenges that emanate from digitization thus, advancing our systems and investing in cyber security and data protection is a priority. To this end, we have hired the services of an ICT Security Manager to protect the ICT environment.

Our Appreciation
To all our stakeholders, your confidence in us continues to challenge us to provide exemplary customer service. Your support and efforts have been instrumental in our growth. As an industry, it's our role to Educate, Protect and Financially Empower our low-income consumers. Together, we will strive for greater success in 2023, embracing opportunities, fostering innovation, and remaining steadfast in our commitment to serving our customers.

Caritas Twaimarisha Jamii
Thank you and God Bless you All.

DAVID MUKARU
CEO-CARITAS MICROFINANCE BANK LTD

Environmental, Social and Governance (ESG) is a framework used to assess an organization's business practices and performance on various sustainability and ethical issues. It also provides a way to measure business risks and opportunities in those areas.

Our ESG Journey

The bank is aware of the potential benefits of embracing ESG in its day-to-day activities. Eventually, the benefits spills to the shareholders by ensuring that the bank operates fin a sustainable way.

The bank has in Q1, 2023 been taken through an ESG audit with an aim of establishing the level of awareness and what needs to be done to improve compliance on the ESG pillars. Following the audit, the bank has ensured high level ESG training of the Board members and the Senior management to guarantee the right tone at the top. Within the current year, there are plans to conduct a Bank wide training to all members of staff and stakeholders.

As the bank is working towards integrating ESG in its corporate culture, it has identified the following guiding activities under each pillar.

Environmental	• Developing financial solutions that drive action on climate change and generate other positive environmental impacts. • Managing environmental risks, including climate-related risks • Minimizing the environmental impacts of our physical operations • Partnering with organizations to advance sustainable development
Social	• Acting in the best interest of our customers • Addressing human rights-related risks • Developing financial solutions that improve quality of life and generate other positive social impacts. • Expanding economic opportunity in the communities where we do business. • Investing in our human capital • Promoting diversity, equity, and inclusion • Strengthening consumer financial health
Governance	• Cultivating a strong risk and control environment • Fostering a culture of transparency and ethical behaviour • Maintaining effective Board leadership and management processes • Safeguarding privacy and cybersecurity

The bank is in the process of developing an ESG framework which includes ESG policies, score card, implementation matrix and ESG reporting structure.

This will ensure better results on Environmental and social impact as well as good corporate governance of
the bank.

14 PRIVACY AND DATA MANAGEMENT

The open digital society in which we live in and, the continued growth of the internet, has increased the need for ways to ensure the effective realization of the three information related rights: freedom of expression, access to information and privacy.

The social and economic activities all over the world are taking a digital trajectory hence the need to embrace the importance of privacy and data protection.

The first data privacy law was adopted in 1970 by the Land of Hesse in Germany in recognition of the potential negative impact of information and communication technologies in the processing of personal data. The adoption of data privacy laws has since gained traction and are being implemented across the globe.

Data Protection Act in Kenya

In Kenya the Data Protection Act was enacted in 2019 and it is borrowed heavily from the General Data Protection Rules (GDPR) which is applicable in the United Kingdom. Progress towards implementation started in November 2020 with the appointment of the Data Protection Commissioner and setting up of the Office of the Data Protection Commissioner, the regulating body on matters data protection.

The Bank's Milestones in Data Protection

The Bank as a data controller and processor has been on the forefront in the implementation of the Act and so far, the following milestones have been achieved:

- Registration with the office of the data commissioner as data processor and controller.
- Appointment of the data Protection Officer
- Training of the board, management, and the staff on data protection
- Joining the Kenya Bankers Association Data Protection Officers Taskforce
- Enactment of policies and procedures on data protection
- Attending various forums on data protection
- Inclusion of data protection clauses in contracts with service providers, and other bank documents such as account opening terms and conditions
- Creating customer awareness

In conclusion, data protection is new in Kenya and the banking sector in general hence it will take time to be fully comprehended and applied by stakeholders. The Bank is however keen to ensure full compliance with the Act and regulations thereof.



Awards & Recognitions

Best Overall Microfinance Bank in Kenya
Think Business Awards 2023

Fastest Growing Microfinance Bank in Kenya
Think Business Annual Awards 2023

Most Efficient Microfinance Bank
1st Runners up 2023

Customer Satisfaction
1st Runners up 2023

Lifetime Achievement in Banking Award
David Mukaru (CEO) 2022

Fastest Growing Microfinance Bank in Kenya
Think Business Annual Awards 2022

Best Microfinance Bank in Digital Banking
2nd Runners up 2022

Fastest Growing Microfinance Bank in Kenya
Think Business Annual Awards
2020,2019,2018

Recognition of achievement of IVORY MARK
C1O100 annual symposium award 2019

WINNER: Most improved microfinance in automotive finance
Automotive industry excellence award 2019

CIO AWARDS
2018- 2019

First Runner Up in Financial Reporting for Microfinance Banks
Fire Awards 2019, 2020, 2021



Caritas
MICROFINANCE BANK

Caricash Mobile Loan

This is a short-term facility exclusive to the bank's customers applied for, processed and disbursed using the mobile phone. The loan is meant to address 'micro' working capital needs and emergencies for the bank's customers

Features and Benefits

- Easy and convenient access to funds.
- Requirements: Operated an active account with the bank for at least three months.
- Mode of Application; Dial *810# and go to loans menu
- Loan Eligibility- Dependent on the account turnover
- Loan Tenure- one month
- Minimum Loan – Kshs 100
- Maximum Loan- Kshs 70,000.

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Email: info@caritas-mfb.co.ke
Website: www.caritas-mfb.co.ke

The directors present their report together with the audited financial statements of Caritas Microfinance Bank Limited (the “Bank”) and its subsidiaries (together, the "Group") for the year ended 31 December 2022, which disclose its state of financial affairs.

Principal activity

The Bank offers microfinance banking services and Bancassurance services. Its principal activity is lending and investments.

Directors

Caritas Microfinance Bank Limited has a Board of Directors that is responsible for the governance of the Bank and ensuring that the Bank complies with the law and the highest standards of corporate governance and business ethics. The Board is responsible for the long-term growth and profitability of the Bank.

The Board has put in place very effective board committees that have upheld sound corporate governance throughout the year and this been a key pillar in ensuring that the bank excelled in growing business despite a tough economic environment.

The directors who served during the year and to the date of this report were:

Mr. Patrick Kariuki Kinyori	-	Chairman
Mr. David Mukaru	-	Chief Executive Officer
Mr. George Kirigi Thogo		
Fr. Simon Ng’ang’a Kinyanjui		
Sr. Mary Wanja Mbaci		
Prof. Peter Ndung’u Kiriri		
Mr. Graham Waliaula B. Soita		
Dr. AnneMary Nkirote		

Business review

The Board and management of the Group are pleased to report the following as some of the achievements and key milestones for the year ended 31 December 2022:

(i) Improved capitalization

During the period, the shareholders injected an additional capital to the Bank of Shs 13.6 million to place the total paid-up capital at Shs 683 million.

(ii) Financial performance

- *Deposits - Customer deposits grew from Shs 2.5 billion in 2021 to Shs 2.8 billion in 2022, recording a 14% growth of Shs 350 million.*
- *Asset base - The Bank recorded a 14% growth in total assets to Shs 3.4 billion as at 31 December 2022, up from Shs 3.0 billion at 31 December 2021.*
- *Profitability - Despite the Global Economic challenges that affected the international and local economy, the Group showed great institutional resilience and increased its profitability.*

Amidst the challenging times, the Group recorded a profit before income tax of Shs 39.5 million in 2022 up from a profit before tax of Shs 17.2 million in 2021.

Kenya's economic recovery remains strong, although slowed by drought and inflation. According to World bank press release no. 2022/032/AFE, Kenya's economy continued to rebound from the pandemic in 2022 with real gross domestic product (GDP) increasing by 6% year-on-year in the first half of 2022, driven by broad-based increases in services and industry. This recovery was dampened by global commodity price shocks, the long regional drought, and uncertainty in the run up to the 2022 general elections.

To curb the effects of the COVID-19 pandemic, the Central Bank of Kenya (CBK) rolled out a Credit Repair Framework by commercial banks, microfinance banks and mortgage finance companies. The Framework seeks to improve the credit standing of mobile phone digital borrowers whose loans are non-performing and have been reported as such to Credit Reference Bureaus (CRBs) as at end October 2022. The Framework is expected to enable this segment of borrowers to access credit and other financial services as they rebuild their lives and livelihoods.

Results and dividend

Profit for the year of Shs 39.5 million (2021: Shs 17.2 million) has been added to accumulated losses. The directors do not recommend the payment of a dividend (2021: nil).

Statement as to disclosure to the company's auditors

The directors confirm that with respect to each director at the time of approval of this report:

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

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

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity, and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

By Order of the Board

Secretary

30th March 2023

Introduction

Caritas Microfinance Bank Limited received its licence from the Central Bank of Kenya on 12 June 2015.

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

Shareholders' responsibilities

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

Board of directors

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

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

Attendance of directors at board meetings

Number of Board Meetings held in 2022

Name of Director	Number of meetings held while in office	Number of meetings attended	Percentage of meetings attended
Mr. Patrick Kariuki Kinyori	10	9	90%
Mr. David Mukaru	10	10	100%
Mr. Gorge Kirigi Thigo	6	5	83%
Fr. Simon Ng'ang'a Kinyanjui	10	10	100%
Sr. Mary Wanja Mbaci	10	10	100%
Prof. Peter Ndung'u Kiriri	10	8	80%
Mr. Graham Waliaula B. Soita	10	8	80%
Dr. AnneMary Nkirote	10	8	80%

The Board has appointed six committees – Credit; Audit and Risk Management; ICT and Operations; Business development; Finance and strategy; and Human resources, Procurement and Leadership Committee. These committees are guided by terms of reference and are mandated to meet at least every alternate month. These committees make recommendations to the Board on matters which fall under their mandates. All the committees are chaired by non-executive directors

Credit Committee

Dr. AnneMary Nkirote, a non-executive director chairs the committee. Sr. Mary Mbaci, a non-executive director, Prof. Peter Ndung'u Kiriri, a non-executive director, the CEO, Head of Credit, Head of Operations, Head of Finance & Strategy and Head of Business development are the other members of the committee. Credit proposals are placed before the credit committee for sanction. The committee also reviews the credit limits sanctioned, as per the credit policy approved by the board.

Audit and risk management committee

This committee is chaired by Fr. Simon Ng'ang'a, a non-executive director. Mr. Graham Waliaula , a non-executive director, Mr. George Thogo, a non-executive director, and the Head of audit, risk & compliance are the other members of this committee. The committee reviews the audit reports presented to it by the internal and external auditors, and based on these reports, also recommends review of various operational areas of the bank. The committee is responsible for the setting of the tone of the bank on risk management. The committee also reviews the observations made by the bank supervision department of the Central Bank of Kenya in its inspection reports.

Business development committee

Prof. Peter Kiriri, a non-executive director, chairs this committee. Sr. Mary Mbaci, a non - executive director, Dr. Annemary Nkirote, the CEO, Head of Business development , Head of Operations , Head of Finance , Head of Credit , Institutional Banking RO and the Head of ICT are the other members of this committee. The responsibilities of the committee are growth of the overall business of the Bank and implementation of the strategic plan including Bank's expansion strategy.

ICT and operations

Mr. George Thogo, a non - executive director, chairs this committee, Fr. Simon Ng'ang'a Kinyanjui, a non-executive director , Prof. Peter Ndung'u Kiriri, a non-executive director , Prof. Peter Kiriri, a non-executive director, the CEO, Head of Operations, Head of Human resources and administration and the Head of ICT are the other members of this committee. The responsibilities of the committee are identification of operational areas where automation is necessary, undertaking new automation projects, procurement of hardware and software and monitoring ICT projects implementation, providing directions to the it and operations department on implementation issues and review of systems and operations audit reports. Oversight of the Bank's operations, treasury, and investments.

Finance and strategy committee

Mr. Graham Waliaula, a non - executive director (appointed 28th July 2021), chairs this committee, Mr. Patrick Kinyori, Chairman, Prof Peter Kiriri, a non - executive director, the CEO, Head of Operations, Head of Credit, Head of Finance & strategy , Head of ICT and the Head of Business development are the other members of this committee. The responsibilities of the finance and strategy committee are monitoring and review of the implementation of the financial strategy and performance of the bank, approval and monitoring the implementation of the budget, oversight over alco management committee and approval of all banking arrangements and partnerships.

Human resources, procurement, and leadership committee

The human resources committee is chaired by Sr. Mary Mbaci who is a non-executive director, Dr. AnneMary Nkirote, a non - executive director, Mr. George Thogo, a non - executive director, the CEO, the Head of Human resources and administration, Head of Operations, Head of Business development and the Head of Finance & strategy are the other members of this committee. The committee facilitates recruitment of staff members, their placement, promotions, transfers, training, and benefits to the employees. The committee also monitors and sanctions procurements, logistics and other general administration of Bank.

Assets and liability management committee (ALCO)

This committee is chaired by the Chief executive officer. The Head of finance & Strategy, Head of credit, Head of operations, Head of ICT, Head of business development are the other committee members. This committee monitors the liquidity position of the bank and regulatory compliance with regards to statutory liquidity ratio, cash reserve ratio and foreign exchange exposure as per the prudential guidelines of the Central Bank of Kenya. The committee decides on investments in various securities to maximise returns. It also analyses all risks including the interest rate risk and fixes the interest rates in line with the market trends.

The Companies Act 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company, as at the end of the financial year and of its operating results for the year. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. It also accepts responsibility for:

i. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
ii. selecting and applying appropriate accounting policies; and
iii. making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as of 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act.

Having assessed the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 30 March 2023 and signed on its behalf by:

.....
Mr. Patrick Kariuki Kinyori
Director

.....
Fr. Simon Ng'ang'a

.....
Mr. David Mukaru
Chief Executive

Independent auditor's report to the shareholders of Caritas Microfinance Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Caritas Microfinance Bank Limited (the "Bank") and its subsidiary (together, the "Group") set out on pages 10 to 63, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2022 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Caritas Microfinance Bank Limited give a true and fair view of the financial position of the Group and of the Bank at 31 December 2022 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

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

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

Other information

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

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

Report on the audit of the financial statements (continued)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the shareholder of Caritas Microfinance Bank Limited (continued)

Report on the audit of the Group financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the directors' report on page 2 and 3 is consistent with the financial statements.



CPA Brian Ngunjiri, Practicing certificate Number 2451
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

30 **March 2023**

Consolidated statement of profit or loss and other comprehensive income

	Notes	2022 Shs	2021 Shs
Interest income	5	488,036,131	394,157,437
Interest expense	6	(128,469,972)	(102,210,113)
Net interest income		359,566,159	291,947,324
Fee and commission income	7	21,660,416	15,181,066
Fee and commission expense	8	(1,864,108)	(3,024,203)
Net fee and commission income		19,796,308	12,156,863
Other operating income	11	1,749,812	5,821,659
Credit impairment charges	16	(48,147,680)	(52,835,622)
Net operating income		332,964,599	257,090,224
Employee benefits	9	(128,209,649)	(98,682,900)
Depreciation and amortisation	10(a)	(36,486,764)	(39,939,518)
Administration expenses	10(b)	(128,719,244)	(101,313,216)
Operating expenses		(293,415,657)	(239,935,634)
Profit before income tax		39,548,942	17,154,590
Income tax expense		-	-
Profit for the year		39,548,942	17,154,590
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Fair value gain on financial instruments held at FVOCI		(8,287,636)	328,870
Items that will not be reclassified to profit or loss			
Gain on revaluation of motor vehicle		1,670,000	-
		(6,617,636)	328,870
Total comprehensive income for the year, net of tax		32,931,306	17,483,460

Bank statement of profit or loss and other comprehensive income

	Note	2022 Shs	2021 Shs
Interest income	5	488,036,131	394,157,437
Interest expense	6	(128,469,972)	(102,210,113)
Net interest income		359,566,159	291,947,324
Fee and commission income	7	17,139,084	15,181,066
Fee and commissions expense	8	(1,864,108)	(3,024,203)
Net fee and commission income		15,274,976	12,156,863
Other operating income	11	1,749,812	5,821,659
Credit impairment charges	16	(48,147,680)	(52,835,622)
Net operating income		328,443,267	257,090,224
Employee benefits	9	(125,974,476)	(98,682,900)
Depreciation and amortisation	10(a)	(36,339,067)	(39,939,518)
Administration expenses	10(b)	(127,263,701)	(101,313,216)
		(289,577,244)	(239,935,634)
Profit before Income tax		38,866,023	17,154,590
Income tax expense		-	-
Profit for the year		38,866,023	17,154,590
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Fair value gain on financial instruments held at FVOCI		(8,287,636)	328,870
Items that will not be reclassified to profit or loss			
Gain on revaluation of motor vehicle		1,670,000	-
		(6,617,636)	328,870
Total comprehensive income for the year, net of tax		32,248,387	17,483,460

Consolidated statement of financial position

ASSETS	Notes	2022 Shs	2021 Kshs
Cash and deposits held with other banks	18	543,170,651	674,141,152
Loans and advances	16	2,154,459,167	1,952,137,873
Other assets	17	90,167,167	62,548,026
Government securities	15	425,022,810	123,982,377
Motor vehicles, furniture & fittings, and equipment	13 (a)	57,349,933	56,802,468
Intangible assets	14	8,453,886	6,596,655
Right-of-use assets	13 (b)	71,718,634	74,998,903
Investment in Caritas Bancassurance Limited	24	-	24,960
TOTAL ASSETS		3,350,342,248	2,951,232,414
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	19	2,850,176,100	2,504,240,294
Lease liabilities	13 (c)	81,190,129	80,496,652
Other liabilities	20	26,625,345	19,783,380
TOTAL LIABILITIES		2,957,991,574	2,604,520,326
EQUITY			
Share capital	21	696,600,000	683,000,000
Statutory reserve		39,418,304	34,368,007
Accumulated Losses		(337,378,864)	(370,984,789)
Revaluation reserve		1,670,000	-
Other reserves		(7,958,766)	328,870
TOTAL EQUITY		392,350,674	346,712,088
TOTAL LIABILITIES AND EQUITY		3,350,342,248	2,951,232,414

The financial statements on page 10 to 63 were approved by the Board of Directors on 30 March 2023 and signed on its behalf by:

Mr. Patrick Kariuki Kinyori
Director

Mr. David Mukaru
Chief Executive Officer

Fr. Simon Ng'ang'a
Director

CARITAS MICROFINANCE BANK
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

Bank statement of financial position

ASSETS	Note	2022 Shs	2021 Shs
Cash and deposits held with other banks	18	543,170,651	674,141,152
Loans and advances	16	2,154,459,167	1,952,137,873
Other assets	17	88,594,148	62,548,026
Government securities	15	425,022,810	123,982,377
Motor vehicles, furniture & fittings, and equipment	13 (a)	57,047,009	56,802,468
Intangible assets	14	8,453,886	6,596,655
Right-of-use assets	13 (b)	71,718,634	74,998,903
Investment in Caritas Bancassurance Limited	24	5,000,000	24,960
TOTAL ASSETS		3,353,466,305	2,951,232,414
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	19	2,854,159,531	2,504,240,294
Lease liabilities	13 (c)	81,190,129	80,496,652
Other liabilities	20	25,556,170	19,783,380
TOTAL LIABILITIES		2,960,905,830	2,604,520,326
EQUITY			
Share capital	21	696,600,000	683,000,000
Statutory reserve		39,418,304	34,368,007
Accumulated losses		(337,169,063)	(370,984,789)
Revaluation reserve		1,670,000	-
Other reserves		(7,958,766)	328,870
TOTAL EQUITY		392,560,475	346,712,088
TOTAL LIABILITIES AND EQUITY		3,353,466,305	2,951,232,414

The financial statements on page 10 to 63 were approved by the Board of Directors on 30 March 2023 and signed on its behalf by: -

Mr. Patrick Kariuki Kinyori
Director

Mr. David Mukaru
Chief Executive Officer

Fr. Simon Ng'ang'a
Director

Consolidated statement of changes in equity

Year ended 31 December 2021	Share capital Shs	Accumulated losses Shs	Statutory reserve Shs	FVOCI reserve Shs	Revaluation reserve Shs	Total Shs
At start of year	610,000,000	(379,414,536)	25,643,164	-	-	256,228,628
Transfer to statutory reserves	-	(8,724,843)	8,724,843	-	-	-
Issue of shares	73,000,000	-	-	-	-	73,000,000
Profit for the year	-	17,154,590	-	-	-	17,154,590
Other comprehensive income for the year	-	-	-	328,870	-	328,870
At end of year	683,000,000	(370,984,789)	34,368,007	328,870	-	346,712,088
Year ended 31 December 2022						
At start of year	683,000,000	(371,877,509)	34,368,007	328,870	-	345,819,368
Transfer to statutory reserves	-	(5,050,297)	5,050,297	-	-	-
Issue of shares	13,600,000	-	-	-	-	13,600,000
Profit for the year	-	39,548,942	-	-	-	39,548,942
Other comprehensive income for the year	-	-	-	(8,287,636)	1,670,000	(6,617,636)
Difference due to common control	-	(892,720)	-	-	-	(892,720)
At end of year	696,600,000	(337,378,864)	39,418,304	(7,958,766)	1,670,000	392,350,674

Bank statement of changes in equity

	Share capital	Accumulated losses	Statutory Reserve	FVOCI Reserve	Revaluation Reserve	Total
	Shs	Shs	Shs	Shs	Shs	Shs
Year ended 31 December 2021						
At 1 January 2021	610,000,000	(379,414,536)	25,643,164	-	-	256,228,628
Transfer to statutory reserves	-	(8,724,843)	8,724,843	-	-	-
Issue of shares	73,000,000	-	-	-	-	73,000,000
Profit for the year	-	17,154,590	-	-	-	17,154,590
Other comprehensive income for the year	-	-	-	328,870	-	328,870
At 31 December 2021	683,000,000	(370,984,789)	34,368,007	328,870	-	346,712,088
Year ended 31 December 2022						
At start of year	683,000,000	(370,984,789)	34,368,007	328,870	-	346,712,088
Transfer to statutory reserves	-	(5,050,297)	5,050,297	-	-	-
Issue of shares	13,600,000	-	-	-	-	13,600,000
Profit for the year	-	38,866,023	-	-	-	38,866,023
Other comprehensive income for the year	-	-	-	(8,287,636)	1,670,000	(6,617,636)
At end of year	696,600,000	(337,169,063)	39,418,304	(7,958,766)	1,670,000	392,560,475

Consolidated statement of cash flows

Cash flows from operating activities:	Notes	2022 Shs	2021 Shs
Profit before tax		39,548,942	17,154,590
Adjusted for:			
Depreciation	13 (a)	17,364,124	15,398,577
Amortisation of intangible assets	14	760,996	6,171,619
Amortisation of ROUA	13 (b)	18,361,644	18,369,322
Interest on lease liabilities	6	7,130,345	5,803,010
Gain on lease termination		-	(3,957,149)
Impairment of loans and advances	16	48,147,680	52,835,622
Write-off of loans and advances		(10,391,734)	(63,224,988)
Operating profit before working capital changes		120,921,997	48,550,603
Working capital changes:			
Increase in loans and advances	16 (a)	(240,077,240)	(530,401,988)
Increase in other assets	17	(27,619,141)	(8,005,427)
Increase in customer deposits	19	345,935,806	561,440,456
Increase in other liabilities	20	6,841,965	5,036,359
Increase in financial assets held at FVOCI		(309,328,069)	(123,982,377)
Decrease in due from related party			
Cash flows from operating activities		(103,324,682)	(47,362,374)
Income tax paid		-	-
Net cash flows generated from operating activities		(103,324,682)	(47,362,374)
Cash flow from investing activities:			
Proceeds from sale of Government securities	15	-	15,000,000
Acquisition of property and equipment	13	(15,790,968)	(11,203,441)
Acquisition of intangible assets		(2,618,227)	-
Investment in associate			
Net cash flows used in investing activities		(18,409,195)	3,796,559
Cash flow from financing activities:			
Proceeds from issue of shares	21	13,600,000	73,000,000
Principal payments on lease liabilities	13 (c)	(14,387,899)	(16,364,920)
Interest payments on lease liabilities	13 (c)	(7,130,345)	(5,803,010)
Net cash flows used in financing activities		(7,918,244)	50,832,070
Net (decrease) /increase in cash and cash equivalents		(130,970,501)	7,266,255
Movement in cash and cash equivalents			
At the start of the year		674,141,152	666,874,897
(Decrease)/increase during the year		(130,970,501)	7,266,255
At end of the year		543,170,651	674,141,152

CARITAS MICROFINANCE BANK
STATEMENT OF CASH FLOWS
(FOR THE YEAR ENDED 31 DECEMBER 2022

Bank statement of cash flows

Cash flows from operating activities:	**Notes**	**2,022 Shs**	**2,021 Shs**
Profit before tax		38,866,023	17,154,590
Adjusted for:			
Depreciation	13 (a)	17,216,427	15,398,577
Amortisation of intangible assets	14	760,996	6,171,619
Amortisation of ROUA	13 (b)	18,361,644	18,369,322
Gain on lease termination		-	(3,957,149)
Interest on lease liabilities	6	7,130,345	5,803,010
Impairment of loans and advances	16	48,147,680	52,835,622
Write-off of loans and advances		(10,391,734)	(63,224,988)
Operating profit before working capital changes		120,091,381	48,550,603
Working capital changes:			
Increase in loans and advances	16	(240,077,240)	(530,401,988)
Increase in other assets	17	(28,937,521)	(8,005,427)
Decrease in due from related party		2,365,380	
Increase in customer deposits	19	349,919,237	561,440,456
Increase in other liabilities	20	5,772,790	5,036,359
Increase in financial assets held at FVOCI		(309,328,069)	(123,982,377)
Cash flows from operating activities		(99,668,022)	(47,362,374)
Tax paid		-	-
Net cash flows from operating activities		(99,668,022)	(47,362,374)
Cash flow from investing activities:			
Proceeds from sale of Government securities	15	-	15,000,000
Acquisition of property and equipment	13 (a)	(15,790,968)	(11,203,441)
Acquisition of intangible assets		(2,618,227)	-
Acquisition of subsidiary	17	(75,040)	-
Investment in subsidiary		(4,900,000)	-
Net cash used in investing activities		(23,384,235)	3,796,559
Cash flow from financing activities:			
Proceeds from Issue of Shares	21	13,600,000	73,000,000
Principal payments on lease liabilities	13 (c)	(14,387,899)	(16,364,920)
Interest payments on lease liabilities	13 (c)	(7,130,345)	(5,803,010)
Net cash flows (used in)/from financing activities		(7,918,244)	50,832,070
Net decrease /(increase) in cash and cash equivalents		(130,970,501)	7,266,255
Movement in cash and cash equivalents			
At the start of the year		674,141,152	666,874,897
(Decrease)/increase during the year		(130,970,501)	7,266,255
At end of the year		543,170,651	674,141,152

1. General information

Caritas Microfinance Bank Limited (the “Bank”) and its subsidiary (together, the "Group") are incorporated in Kenya under the Kenyan Companies Act as private limited liability companies. The Bank is licensed under the Microfinance Act.

The Group is domiciled in Kenya and the address of its registered office is:

Registered office

LRNO 209/13626, Nairobi
Kaunda Street
P.O Box 14231 -00800
Nairobi, Kenya

2. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The measurement basis applied is the historical cost basis except for financial assets measured at fair value through OCI.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policies and disclosures

(i) New standards, amendments, and interpretations adopted by the Group.

The following standards, amendments and interpretations apply for the first time for annual reporting periods ending on 31 December, buto do not have an impact on the financial statements of the Group.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities.

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

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(i) New standards, amendments, and interpretations adopted by the Group (continued).

Asset or liability in a business combination clarity – Amendments to IFRS 3, Business combinations

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The March 2021 amendment will only be available if an entity chose to apply the May 2020 optional practical expedient.

Annual Improvements to IFRS Standards 2018–2020

The following improvements effective 1 January 2022 were finalized in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(ii) New standards, amendments, and interpretations issued but not yet effected.

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending 31 December 2022 and have not been early adopted by the Group. They are not expected to have a significant impact on the financial statements.

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

(ii) New standards, amendments, and interpretations issued but not yet effected (continued)

Number	Effective date	Executive summary
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2023 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.

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

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Society in future periods.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank. Control is achieved when the Bank:

- has power over the investee.
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Bank reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non- controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest.

All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments: Recognition and Measurement.

(c) Investment in a subsidiary

Investment in a subsidiary company is stated at cost less impairment loss where applicable in the separate accounts of the Bank.

(d) Fee and commission income

The Group earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period are accrued over that period.

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

(e) Leases

The Group leases property for office and banking halls. The Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

The Group recognizes a right-of-use asset and a Lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.



2. Summary of significant accounting policies (continued)

(e) Leases (continued)

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liabilities.
- any lease payments made at or before the commencement date, less any lease incentives.
- any initial direct costs incurred by the lessee; and
- any cost to dismantle.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the Lease liabilities. Depreciation is calculated using the straight-line method over period of the lease.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. These include:

- fixed payments, less any lease incentives receivable.
- amounts expected to be payable by the lessee under residual value guarantees.
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments are not included in the initial measurement of the Lease liabilities and are expensed.

The lease payments are discounted using the Group's incremental borrowing rate. The incremental borrowing rate is determined as the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lease term determined by the Group comprises:

- non-cancellable period of lease contracts,
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Group measures the lease liabilities by:

- increasing the carrying amount to reflect interest on the lease liabilities,
- reducing the carrying amount to reflect lease payments made, and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.



2. Summary of significant accounting policies (continued)

(f) Motor vehicles, furniture & fittings, and equipment

Items of motor vehicles, furniture & fittings and equipment are initially measured at cost. Cost includes the purchase price of an asset and other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

All items of property and equipment are stated at historical cost or subsequently at valuation, less cumulated depreciation and any impairment in value.

The cost of replacing part of an item of motor vehicles, furniture & fittings and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of motor vehicles, furniture & fittings and equipment are recognized in profit or loss as incurred.

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

The annual depreciation rates in use are: -	
Furniture, fixtures and fittings	12.5% per annum
Computers	20.0% per annum
Other equipment	12.5% per annum
Motor vehicles	25.0% per annum

The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year-end and adjusted prospectively, as a change in an estimate, if appropriate.

With consideration of the above guideline the Group adjusted the useful life and the depreciation rates for the computers (from 33.3% p. a to 20% p. a).

Motor vehicles, furniture & fittings and equipment are derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset is recognized in other income in profit or loss in the year the asset is derecognized.

Fixed assets revaluation: This is the process of increasing or decreasing the carrying value of a company's fixed asset or Group of fixed assets to account for any major changes in their market value.

IAS16 allows entities to choose two valuation models for the PPE-the cost model or the revaluation model.

In case the revaluation model is chosen in a certain class of PPE, the revaluations need to be kept up to date, although IAS 16 is not specific as to how often the assets need be revalued. However, the Group has adopted the revaluation model on motor vehicles and maintained the cost model on other PPE items.

When the revaluation method is used, the assets are carried at their fair value, defined as 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.'

The revaluation gains are recognized in equity unless they reverse revaluation losses on the same asset that they previously recognized in the income statement. In these circumstances the revaluation gain is recognized in the income statement.

The revaluation losses are recognized in the income statement. The only exception to this rule is where revaluation surplus exists relating to previous revaluation of the asset. To that extent a revaluation loss can be recognized in equity.

The Group applies the cost model to the fully depreciated computers for the year 2022 since the same computers are still in use and are estimated to have useful life extended.



2. Summary of significant accounting policies (continued)

(g) Intangible assets

The Group's intangible assets include the value of computer software. An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated Amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortized over their useful lives. The Amortisation period and the Amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the Amortisation period or method, as appropriate, and treated as changes in accounting estimates. The Amortisation expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. The Group adjusted the useful life and the amortisation rates for the intangible assets (from 20% p.a to 10% p.a). The Group's software is developed by external consultants and hence the Group does not incur any research and development costs.

Software in test mode stage is held as work in progress until it is certified as fully operational.

Intangible assets are derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

(h) Foreign currency transactions

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the Functional and Presentation currency of the subsidiary. For each entity in the Group, the Group determines the functional currency and items included in the financial statements of each entity are measured using that Functional currency.

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through profit or loss. The Group does not have a foreign operation.



2. Summary of significant accounting policies (continued)

(i) Taxation

(i) Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

(ii) Deferred income tax

Deferred income tax is computed on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax is recognized for all taxable temporary differences, except:

- where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

2. Summary of significant accounting policies (continued)

(i) Taxation (continued)

(iii) Value added tax.

Expenses and assets are recognised net of Value added tax, except:

- when the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
- when receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(j) Retirement benefit costs

The Group contributes to a statutory defined contribution provident scheme, the National Social Security Fund (NSSF).

(k) Short-term benefits

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

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

(l) Provisions

Provisions for liabilities are recognized when there is a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

(m) Dividends

Dividends are recognized as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company.

(n) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand and amounts due from banks on demand or with an original maturity of three months or less.

(o) Recognition of interest income

The effective interest rate method

Interest income on interest bearing financial instruments is accounted for in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income over the relevant period. 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 gross 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 Group recognizes 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 recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle.

2. Summary of significant accounting policies (continued)

(n) Recognition of interest income (continued)

The effective interest rate method (continued)

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 balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in profit or loss.

Interest on credit-impaired financial assets

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group 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 Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

(o) Financial assets and liabilities.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group accounts for its financial instruments in line with IFRS 9 which establishes principles that would present relevant and useful information to users of financial statements in relation to:

i. Classification of financial instruments.
ii. Initial and subsequent measurement of financial instruments.
iii. Modification and derecognition of financial instruments; and
iv. Impairment of financial assets.

The Group determines the appropriate classification of its financial assets at initial recognition. It recognizes a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument.

The Group classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss ("FVTPL").
- Financial assets measured at amortized cost; and
- Financial assets at fair value through other comprehensive income ("FVTOCI").

Financial assets (except those carried at fair value through profit or loss) are initially recognized in the financial statements at fair value plus transaction costs. Loans and receivables and investments held at amortized cost are carried at amortized cost using the effective interest rate ("EIR") method.

2. Summary of significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Financial assets (continued)

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or losses are included in profit and loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets at fair value through other comprehensive income are recognized in other comprehensive income and cumulated in a separate reserve in equity until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recycled through profit and loss for debt instruments.

Initial recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Except for the Group's financial assets that are designated at initial recognition as at fair value through profit or loss, the Group's financial asset is classified based on both:

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Amortized cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortized cost. The carrying amounts of these assets are adjusted by any expected credit loss allowances. Interest income from financial assets is included in "interest income" using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent SPPI and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss.

Fair value through the profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss in the period in which it arises. Interest income and credit related income from these financial assets is included in "interest income" using the effective interest rate method.

Recognition and subsequent measurement

Group's business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets.

If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated.

2. Summary of significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Financial assets (continued)

Recognition and subsequent measurement (continued)

For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent, and none occurred during the year.

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Modification of loans

The Group may sometimes renegotiate or otherwise modify the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by y considering, among others, the following factors:

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

2. Summary of significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Financial assets (continued)

Modification of loans (continued)

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. Accordingly, the date of the modification is treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the criteria for the recognition of lifetime expected credit losses is met.

However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognized as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit- impaired at initial recognition. Differences in the carrying amount are recognized in profit or loss as a gain or loss on derecognition.

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

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.
The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets.
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from assets without material delays.

Impairment of financial assets

The Group recognises loss allowances for ECL on financial assets that are debt instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

2. Summary of significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. The Group measures ECL as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Society expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Presentation of ECL in the Statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Repossessed collateral

The Group makes arrangement to dispose repossessed collateral to the market quickly and at the best price. Disposal processes commences immediately when the asset becomes ready for sale. While assets are not being disposed of, the Group endeavors to keep costs relative to the upkeep and maintenance of the assets to a minimum. Possessed moveable assets are stored at reputable storage yards approved by the Group or within Group premises. The Group is not in asset and property trading/management, and thus does not take positions on the market trends.

2. Summary of significant accounting policies (continued)

(o) Financial assets and liabilities (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at amortized cost.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Groups financial liabilities include customers' deposits, withdrawable customers' deposits, other payables, borrowings, interest payable and amounts due to related parties.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

The Group's financial assets comprise:

Customer deposits: They are recorded at the amounts received and are recognized as a financial liability in the statement of financial position.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(p) Impairment of non-financial assets

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an assets or cash-generating units (CGUs) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Bank of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2. Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the assets or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

3. Critical accounting judgments and estimates

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

Use of estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Measurement of expected credit loss allowance

The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas:

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings for a forward-looking scenarios for each type of product / market and associated ECL
- Establishing groups of similar assets for the purposes of measuring ECL

The expected credit loss allowance on loans and advances is disclosed in more detail in Notes 4 and 16.



4. Financial risk management

Introduction and overview

The Group defines risk as the possibility of losses being incurred or profits foregone, which may be caused by internal or external factors. The Group aims to achieve an appropriate balance between risk and return and minimize the potential adverse effects of the Group's financial performance.

The Bank's subsidiary does not have significant operations. The financial assets and liabilities of the Bank's subsidiary mainly consist of loans from related parties that are eliminated on consolidation and other assets and liabilities that are not material to the Group.

The most important type of risks to which the Group are exposed to are financial risks which include:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyses the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's loans and advances to customers and other banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances

Management of credit risk

The Board of Directors is responsible for management and oversight of credit risk including:

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

- Establishing the authorization structure for the approval and renewal of credit facilities.

- Reviewing and assessing credit risk. The board assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies, and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the company's risk grading to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.

4. Financial risk management (continued)

(a) Credit risk

Expected credit loss (ECL) assessment

Risk parameters in measurement of ECLs

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Probability of default

Probability of Default ("PD") refers to the likelihood of a default occurring and is a measure of the risk of default. In order to calculate IFRS 9 PD, there is a need to develop a PD term structure for calculating ECL (forward looking and lifetime PDs). PD estimates for loans and advances are estimates at a certain date, which have been calculated based on statistical migration matrices that model the chance of an exposure transitioning to default over time and will be assessed at portfolio level for portfolios of assets that have similar characteristics. PDs have been estimated based on the theory of Markov Chain process. The method requires information regarding transitions among credit states. Credit states are defined by rating classes. The Bank reviews and updates the portfolio PDs on an annual basis.

The Bank has drawn an annual transition matrix of ratings to compute a value-based PD over the one year horizon for the past 3-5 years. The Bank has built data to 5 years and update every year thereafter for new data. The PDs are approved by the relevant Board committees for them to take effect. Transition probabilities are determined from the observed transitions over the observed period of time. This rating migration captures the movement of obligors into default at yearly intervals. An average default rate of 5 years is used. Based on the transitions of counterparties within the stages in value terms, the default estimation is done by the transition matrix.

Loss given default

LGD is the forecast of the magnitude of the likely loss if there is a default. The Bank has estimated LGD parameters based on collateral available for secured debt instruments against exposures and the history of recovery rates of claims against defaulted counterparties for unsecured portfolios.

LGD by collateral

The LGD models have considered the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. The Bank has considered the eligibility of collateral. Collateral is eligible if the following can be demonstrated:

- Legal certainty and enforceability
- History of enforceability and recovery

LGD estimates have been calibrated for different collateral types. To reflect possible changes in property prices, the forced sale value (FSV) shall be considered for all collateral types. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest.

4. Financial risk management (continued)

(a) Credit risk (continued)

Expected credit loss (ECL) assessment (continued)

LGD by collections

For the purpose of LGD estimation on its non-collateralized portfolio, the Bank shall compute LGD based on actual recoveries on its defaulted portfolio over a period of at least 3 - 5 years prior to the assessment date. To determine this recovery rate, the Bank has identified the point in time when accounts first go into default in half year periods, filter out any non-performing loan (NPL) accounts that cure and for the remaining accounts obtain data on amounts collected. The difference between the value of the NPL accounts that do not cure and the collections from these accounts as a percentage of the original NPL accounts (NPL accounts that cured and did not cure) is determined as the LGD.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Bank has derived the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments.

Lifetime ECL and determining the EAD

As described previously in this policy, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank has measured ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank has considered a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Significant increase in credit risk

The Bank's decision on whether to recognize 12-month or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is performed at each reporting date. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank's Credit Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Central Bank of Kenya.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

4. Financial risk management (continued)

(a) Credit risk (continued)

Expected credit loss (ECL) assessment (continued)

Definition of default and cure.

The Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes more than 90 days past due on its contractual payments.

The cure rate assumption captures the rate of backward transitions from stage 3 to either stage 2 or 1. This is estimated using the same methodology as the PD.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:
Internal rating of the borrower indicating default or near-default

- The borrower requesting emergency funding from the Group.
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral.
- A material decreases in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Group.
- The debtor (or any legal entity within the debtor's) filing for bankruptcy application/protection.
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of stage 3 when none of the default criteria have been present for at least three consecutive months.

The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Group's maximum exposure to credit risk for the comparative components of the statement of financial position at 31 December 2022 and 2021 is their carrying amount as illustrated in the table below:

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Deposits held with other banks	152,855,688	143,409,021	152,855,688	143,409,021
Placements held with other banks (note 18)	374,109,179	499,392,708	374,109,179	499,392,708
Government Securities	425,022,810	123,982,377	425,022,810	123,982,377
Loans and advances (note 16)	2,154,459,167	1,952,137,873	2,154,459,167	1,952,137,873
Other assets (note 17)	21,426,563	14,017,260	19,853,544	14,017,260
Total	3,127,873,407	2,732,939,239	3,126,300,388	2,732,939,239



4. Financial risk management (continued)

(a) Credit risk (continued)

Write-off policy

The Bank writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardized loans, write-off decisions are generally based on a product specific past due default history.

Policy on collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, The estimates of fair value are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

The Bank holds collateral in respect of secured customer borrowings of Shs 2.64 billion) as at 31 December 2022 (2021: Shs 2.09 billion). The Bank has an obligation to surrender the collateral to the counterparties upon settlement of the borrowings. There are no other significant terms and conditions associated with the use of collateral.

Loans and advances to customers

The Bank's criteria for internal grading of loans that are past due but not impaired is as shown below:

Internal Trade	***Criteria***
Normal	*Not due*
Watch	*Due for 1-30 days*
Substandard	*Due for 31-75 days*
Doubtful	*Due for 76-90 days*
Loss	*Due for more than 90 days*

The table below shows the loans and advances credit quality and the exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

2022	**Stage 1 Shs**	**Stage 2 Shs**	**Stage 3 Shs**	**Total Shs**
Internal rating grade				
Normal	2,002,595,038	-	-	2,002,595,038
Watch	55,424,146	-	-	55,424,146
Substandard	-	13,972,589	-	13,972,589
Doubtful	-	15,962,226	-	15,962,226
Loss	-	-	152,718,535	152,718,535
Total	2,058,019,184	29,934,815	152,718,535	2,240,672,534

4. Financial risk management (continued)

(a) Credit risk (continued)

2021	Stage 1 Shs	Stage 2 Shs	Stage 3 Shs	Total Shs
Internal rating grade				
Normal	1,813,648,717	-	-	1,813,648,717
Watch	66,532,925	-	-	66,532,925
Substandard	-	15,272,090	-	15,272,090
Doubtful	-	11,753,065	-	11,753,065
Loss	-	-	93,388,497	93,388,497
Total	1,880,181,642	27,025,155	93,388,497	2,000,595,294

Modified financial assets

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value. Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

Restructuring

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis. The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants.

Where the account is restructured with the customer having not regularized overdue principal and interest, the account shall remain in Substandard for six (6) months or if in Doubtful category, twelve (12) months for observation. If the restructured account performs as per the new contract during the observation period, the account can be then upgraded to Watch (stage 2) and observed for another six (6) months where it can be further upgraded to Normal (stage 1) if good performance is sustained.

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

The restructures done in the current year did not result in derecognition. Additionally, the resulting net modification gain was immaterial.



4. Financial risk management (continued)

b) Liquidity risk

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

Management of liquidity risk

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

The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and deposits with institutions, to ensure that sufficient liquidity is maintained within the company. All liquidity policies and procedures are subject to review and approval by board of directors.

Exposure to liquidity risk

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

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

Year ended 31 December	**2022**	**2021**
Average for the year	36%	30%
Maximum for the year	40%	36%
Minimum for the year	33%	25%
Central Bank of Kenya required minimum	20%	20%



4. Financial risk management (continued)

(b) Liquidity risk (continued)

The following table summarizes the maturity profile of the undiscounted cash flows on the Group's financial assets and liabilities as at the reporting date:

Group	Carrying amount	<3 months	3 - 6 months	6 – 12 months	Above 1 year	Total undiscounted Cashflows
31 December 2022	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Financial assets						
Cash balances and deposits in financial institutions	543,170,651	560,247,904	-	-	-	560,247,904
Government Securities	425,022,810	18,973,000	9,589,400	18,973,000	1,153,573,559	1,201,108,959
Loans and advances to customers	2,240,672,534	24,984,676	10,788,580	16,800,952	3,516,973,815	3,569,548,023
Other assets	21,426,563	21,426,563	-	-	-	21,426,563
Total financial assets	3,230,292,558	625,632,143	20,377,980	35,773,952	4,670,547,374	5,352,331,449
31 December 2021						
Cash balances and deposits in financial institutions	674,141,152	675,905,512	-	-	-	675,905,512
Government Securities	123,982,377	123,982,377	-	-	-	123,982,377
Loans and advances to customers	2,000,595,294	71,091,102	45,071,114	262,229,893	1,765,331,972	2,143,724,081
Other assets	14,017,260	14,017,260	-	-	-	14,017,260
Total financial assets	2,812,736,083	884,996,251	45,071,114	262,229,893	1,765,331,972	2,957,629,230

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Bank	Carrying amount	<3 months	3 - 6 months	6 – 12 months	1 - 5 years	Total undiscounted Cashflows
31 December 2022	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Financial assets						
Cash balances and deposits in financial institutions	543,170,651	560,247,904	-	-	-	560,247,904
Government Securities	425,022,810	18,973,000	9,589,400	18,973,000	1,153,573,559	1,201,108,959
Loans and advances to customers	2,240,672,534	24,984,676	10,788,580	16,800,952	3,516,973,815	3,569,548,023
Other assets	21,426,563	21,426,563	-	-	-	21,426,563
Total financial assets	3,230,292,558	625,632,143	20,377,980	35,773,952	4,670,547,374	5,352,331,449
31 December 2021						
Cash balances and deposits in financial institutions	674,141,152	674,141,152	-	-	-	674,141,152
Government Securities	123,982,377	123,982,377	-	-	-	123,982,377
Loans and advances to customers	2,000,595,294	71,091,102	45,071,114	262,229,893	1,765,331,972	2,143,724,081
Other assets	14,017,260	14,017,260	-	-	-	14,017,260
Total financial assets	2,812,736,083	883,231,891	45,071,114	262,229,893	1,765,331,972	2,955,864,870

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Group	Carrying amount	<3 months	3 - 6 months	6 – 12 months	1 - 5 years	Total undiscounted cashflows
31-Dec-22	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Financial liabilities						
Accruals and other liabilities	26,625,345	26,625,345	-	-	-	26,625,345
Lease liabilities	81,190,129	5,554,894	5,014,048	10,603,813	81,535,617	102,708,372
Deposits from customers	2,850,176,100	3,482,973,729	719,999,461	187,204,743	52,013,557	4,442,191,490
Total financial liabilities	2,957,991,574	3,515,153,968	725,013,509	197,808,556	133,549,174	4,571,525,207
31 December 2021						
Financial liabilities						
Accruals and other liabilities	19,783,380	19,783,380	-	-	-	19,783,380
Lease liabilities	80,496,652	6,791,448	6,130,206	12,964,288	99,685,951	125,571,893
Deposits from customers	2,502,475,934	1,539,107,295	650,022,854	376,802,251	-	2,565,932,400
Total financial liabilities	2,602,755,966	1,565,682,123	656,153,060	389,766,539	99,685,951	2,711,287,673

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Bank	Carrying amount	<3 months	3 - 6 months	6 – 12 months	1 - 5 years	Total undiscounted cashflows
31 December 22	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Financial liabilities						
Accruals and other liabilities	25,556,170	25,556,170	-	-	-	25,556,170
Lease liabilities	81,190,129	5,554,894	5,014,048	10,603,813	81,535,617	102,708,372
Deposits from customers	2,854,159,531	3,482,973,729	719,999,461	187,204,743	52,013,557	4,442,191,490
Total financial liabilities	2,960,905,830	3,514,084,793	725,013,509	197,808,556	133,549,174	4,570,456,032
31 December 2021						
Financial liabilities						
Accruals and other liabilities	19,783,380	19,783,380	-	-	-	19,783,380
Lease liabilities	80,496,652	6,791,448	6,130,206	12,964,288	99,685,951	125,571,893
Deposits from customers	2,504,240,294	1,539,107,295	650,022,854	376,802,251	-	2,565,932,400
Total financial liabilities	2,604,520,326	1,565,682,123	656,153,060	389,766,539	99,685,951	2,711,287,673

4. Financial risk management (continued)

(c) Market risk

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

Currency risk exposure

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group had no financial instruments denominated in foreign currencies during the year ended 31 December 2022 (2021: nil).

Interest rate risk exposure

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of the financial assets. The Board has set limits on level of mismatch of interest repricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the repricing frequency.

	2022	2021
	Shs	Shs
Effect on profit or loss and equity of a +1% change in interest rates	2,541,600	3,567,225
Effect on profit or loss and equity of a -1% change in interest rates	(2,541,600)	(3,567,225)

4. Financial risk management (continued)

(c) Market risk (continued)

The following table analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by maturity dates.

Group	Carrying amount Shs	Non-interest bearing Shs	<3 months Shs	3 - 6 months Shs	6-12 months Shs	1-5 years Shs
31 December 2022						
Assets						
Cash balances and deposits in financial institutions	543,170,651	169,061,472	374,109,179	-	-	-
Government securities	425,022,810	-	425,022,810	-	-	-
Loans and advances to customers	2,154,459,167	-	2,154,459,167	-	-	-
Total financial assets	3,122,652,628	169,061,472	2,953,591,156	-	-	-
Liabilities						
Deposits from customers	2,850,176,100	675,226,263	1,015,505,109	971,546,047	187,228,681	670,000
Interest rate sensitivity gap	272,476,528	(506,164,791)	1,938,086,047	(971,546,047)	(187,228,681)	(670,000)
31 December 2021						
Assets						
Cash balances and deposits in financial institutions	674,141,152	174,748,444	499,392,708	-	-	-
Government securities	123,982,377		123,982,377	-	-	-
Loans and advances to customers	1,952,137,873	-	1,952,137,873	-	-	-
Total financial assets	2,750,261,402	174,748,444	2,575,512,958	-	-	-
Liabilities						
Deposits from customers	2,504,240,294	817,370,708	707,947,292	629,556,000	349,366,294	-
Interest rate sensitivity gap	246,021,108	(642,622,264)	1,867,565,666	(629,556,000)	(349,366,294)	-

4. Financial risk management (continued)

(d) Capital management

The Central Bank of Kenya sets and monitors capital requirements for Deposit Taking Microfinance Institutions as a whole. The Deposit Taking Microfinance institutions' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealized gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1capital; and qualifying term subordinated loan capital may not exceed 50 % of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Deposit Taking Microfinance Institutions and certain other regulatory items.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The Group's aim is to build a strong capital base to maintain investor, creditor, and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Deposit Taking Microfinance Institution recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. In implementing current capital requirements, the Central Bank of Kenya requires each Deposit Taking Microfinance institution to maintain:

- A minimum level of regulatory capital of Shs 60 million.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities
- Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Share capital	696,600,000	683,000,000	696,600,000	683,000,000
Accumulated losses	(337,378,861)	(370,984,789)	(337,169,063)	(370,984,789)
Statutory reserve	39,418,304	34,368,007	39,418,304	34,368,007
Other Reserves	(7,958,766)	328,870	(7,958,766)	328,870
Regulatory capital	390,680,677	346,712,088	390,890,476	346,712,088
Total risk-weighted assets	2,460,094,800	2,259,684,400	2,460,094,800	2,259,684,400

4. Financial risk management (continued).

(d) Capital management.

Capital ratios.

Total regulatory capital expressed as a percentage of total risk weighted assets (CBK minimum, 12%) was 15.1% (2021: 15%)

Total tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum, 10%) was 13.5% (2021: 15%)

Total regulatory capital expressed as a percentage of total deposit liabilities (CBK minimum, 8%) was 11.6% (2021: 12.5%)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the institution's processes, personnel, technology, and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all the Group's operations and are faced by all business units. The Group cannot expect to eliminate all operational risks, through a control framework and monitoring and responding to potential risks, the Group is able to manage its risk. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(f) Fair value of financial instruments.

Determination of fair value and fair values hierarchy

IFRS 7 and IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have been utilized to arrive at the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The only assets carried at fair value are government securities at fair value through other comprehensive income – Fair value is estimated using last quoted closing price on their principal stock exchange.

4 Financial risk management (continued)

(f) Fair value of financial instruments (continued)

The following table summarizes the carrying amounts and fair value of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised costs is considered to approximate the fair value of the assets and liabilities.

Group	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 December 2022	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Assets					
Cash on hand and deposits held with other banks	543,170,651	543,170,651	-	-	543,170,651
Government Securities	425,022,810	425,022,810	425,022,810	-	-
Loans and advances	2,154,459,167	2,154,459,167	-	-	2,154,459,167
Other assets	90,167,167	90,167,167	-	-	90,167,167
Total assets	3,212,819,795	3,212,819,795	425,022,810	-	2,787,796,985
Liabilities					
Customer deposits	2,854,159,531	2,854,159,531	-	-	2,854,159,531
Lease liability	81,190,129	81,190,129	-	81,190,129	-
Other liabilities	26,625,345	26,625,345	-	-	26,625,345
Total liabilities	2,961,975,005	2,961,975,005	-	81,190,129	2,880,784,876
31 December 2021					
Assets					
Cash on hand and deposits held with other banks	674,141,152	674,141,152	-	-	674,141,152
Government Securities	123,982,377	123,982,377	123,982,377	-	-
Loans and advances	1,952,137,873	1,952,137,873	-	-	1,952,137,873
Other assets	62,548,026	62,548,026	-	-	62,548,026
Total assets	2,812,809,428	2,812,809,428	123,982,377	-	2,688,827,051
Liabilities					
Customer deposits	2,504,240,294	2,504,240,294	-	-	2,504,240,294
Lease liability	80,496,652	80,496,652	-	80,496,652	-
Other liabilities	19,783,380	19,783,380	-	-	19,783,380
Total liabilities	2,604,520,326	2,604,520,326	-	80,496,652	2,524,023,674

4 Financial risk management (continued)

(f) Fair value of financial instruments (continued)

Bank	Carrying amount	Fair value	Level 1	Level 2	Level 3
31 December 2022	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Assets					
Cash on hand and deposits held with other banks	543,170,651	543,170,651	-	-	543,170,651
Government Securities	425,022,810	425,022,810	425,022,810	-	-
Loans and advances	2,154,459,167	2,154,459,167	-	-	2,154,459,167
Other assets	88,594,148	88,594,148	-	-	88,594,148
Total assets	3,211,246,776	3,211,246,776	425,022,810	-	2,786,223,966
Liabilities					
Customer deposits	2,854,159,531	2,854,159,531	-	-	2,854,159,531
Lease liability	81,190,129	81,190,129	-	81,190,129	-
Other liabilities	25,556,170	25,556,170	-	-	25,556,170
Total liabilities	2,960,905,830	2,960,905,830	-	81,190,129	2,879,715,701
31 December 2021					
Assets					
Cash on hand and deposits held with other banks	674,141,152	674,141,152	-	-	674,141,152
Government Securities	123,982,377	123,982,377	123,982,377	-	-
Loans and advances	1,952,137,873	1,952,137,873	-	-	1,952,137,873
Other assets	62,548,026	62,548,026	-	-	62,548,026
Total assets	2,812,809,428	2,812,809,428	123,982,377	-	2,688,827,051
Liabilities					
Customer deposits	2,504,240,294	2,504,240,294	-	-	2,504,240,294
Lease liability	80,496,652	80,496,652	-	80,496,652	-
Other liabilities	19,783,380	19,783,380	-	-	19,783,380
Total liabilities	2,604,520,326	2,604,520,326	-	80,496,652	2,524,023,674

5 Interest income

	Group and Bank	
	2022 Shs	2021 Shs
Interest on loans and advances	389,586,526	344,119,935
Interest on call deposits	4,406,926	11,494,291
Interest on fixed deposits	64,770,249	37,351,456
Interest on Government securities	29,272,430	1,191,755
	488,036,131	394,157,437

6 Interest expense

Savings accounts	6,912,614	6,352,543
Fixed deposits	114,427,013	90,054,560
Lease expense	7,130,345	5,803,010
	128,469,972	102,210,113

7 Fee and commission income

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Fee and commission income on bank transactions	7,481,776	7,819,333	7,481,776	7,819,333
Fee and commission income on mobile banking	9,657,308	7,361,733	9,657,308	7,361,733
Insurance commission	4,521,332	-	-	-
	21,660,416	15,181,066	17,139,084	15,181,066

8 Fee and commission expense

Fees and commission expense	1,864,108	3,024,203	1,864,108	3,024,203

9 Employee benefits

Salaries and wages	99,874,204	78,261,075	97,639,031	78,261,075
Pension and gratuity benefits	7,033,695	6,200,732	7,033,695	6,200,732
Staff medical, training, and other expense	21,301,750	14,221,093	21,301,750	14,221,093
	128,209,649	98,682,900	125,974,476	98,682,900

10 (a) Depreciation and amortisation

Depreciation of PPE (Note 13 (a)	17,364,124	15,398,577	17,216,427	15,398,577
Amortisation Leases (Note 13 (c)	18,361,644	18,369,322	18,361,644	18,369,322
Amortisation of intangible assets (Note 14)	760,996	6,171,619	760,996	6,171,619
	36,486,764	39,939,518	36,339,067	39,939,518



10 (b) General and administrative expenses

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Subscription and donations	1,970,004	1,562,003	1,970,004	1,562,003
Software maintenance costs	10,226,722	11,559,979	10,226,722	11,559,979
Office security	9,487,594	8,930,227	9,487,594	8,930,227
General office expenses	9,227,771	6,268,687	9,141,593	6,268,687
Service charge and expensed VAT on rent	6,306,454	7,388,384	5,878,414	7,388,384
Communication expense	6,870,409	4,932,318	6,870,409	4,932,318
Business promotion and marketing	7,374,524	5,201,156	7,374,524	5,201,156
Directors' emoluments	8,708,149	5,065,485	8,523,984	5,065,485
General insurance	4,990,008	5,138,078	4,990,008	5,138,078
Auditor's remuneration	4,330,000	3,000,000	3,750,000	3,000,000
Stationery and Printing	5,072,195	3,319,670	5,072,195	3,319,670
Travel, Accommodation, and meals	5,225,497	4,817,180	5,158,785	4,817,180
Electricity and water	2,492,264	2,186,839	2,492,264	2,186,839
Contribution to Deposit Protection Fund	3,905,163	2,742,848	3,905,163	2,742,848
Mpesa and bank charges	22,666,000	8,861,301	22,660,566	8,861,301
Repairs and maintenance	1,595,716	2,223,411	1,554,554	2,223,411
Cheque book printing	517,213	639,109	517,213	639,109
Postage & courier	1,014,010	1,123,893	1,014,010	1,123,893
Bulk SMS expense	2,752,799	1,352,004	2,752,799	1,352,004
Consultancy fees	3,969,750	5,866,302	3,969,750	5,866,302
Cash in transit	877,085	588,972	877,085	588,972
Professional fees	-	1,747,660	-	1,747,660
AGM expenses	878,010	1,138,340	878,010	1,138,340
Customer credit reference expense	644,504	559,023	644,504	559,023
Legal fees	-	1,354,554	-	1,354,554
Other expenses	7,617,403	3,745,793	7,553,551	3,745,793
	128,719,244	101,313,216	127,263,701	101,313,216

11 Operating income

Other Income	1,073,559	5,052,335	1,073,559	5,052,335
Foreign exchange income	676,253	769,324	676,253	769,324
	1,749,812	5,821,659	1,749,812	5,821,659

12 Income tax expense

Reconciliation of effective tax rate	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Profit before income tax	39,548,942	17,154,590	38,866,023	17,154,590
Income tax using the enacted tax rate 30% (2021: 30%)	11,864,683	5,146,377	11,659,807	5,146,377
Tax effect of:				
Income not subject to tax	(6,455,473)	(7,859,672)	(6,455,473)	(7,859,672)
Expenses not deductible	9,982,942	7,636,501	10,422,123	7,636,501
Deferred Tax on IFRS 16 balances	(1,192,124)	(607,973)	(1,192,124)	(607,973)
Current year deferred tax movement no recognised	(14,200,028)	(4,315,233)	(14,434,333)	(4,315,233)
Income tax expense	-	-	-	-

13 (a) Motor vehicles, furniture & fittings, and equipment

Group	Computers Shs	Equipment Shs	Furniture and fittings Shs	Motor vehicles Shs	Total Shs
Year ended 31 December 2022					
Cost					
At start of year	43,025,745	33,874,195	67,986,092	2,513,129	147,399,161
Additions	5,049,540	2,813,289	7,928,139	-	15,790,968
Revaluation surplus	-	-	-	1,670,000	1,670,000
Disposal	(9,513,434)	-	-	(2,513,129)	(12,026,563)
At end of year	38,561,851	36,687,484	75,914,231	1,670,000.0	152,833,566
Depreciation					
At start of year	37,116,452	20,247,167	30,635,818	2,146,635	90,146,072
Charge for the year	1,834,245	4,853,497	10,309,888	366,494	17,364,124
Disposal	(9,513,434)	-	-	(2,513,129)	(12,026,563)
At end of year	29,437,263	25,100,664	40,945,706	-	95,483,633
Net book value					-
At end of year	9,124,588	11,586,820	34,968,525	1,670,000	57,349,933
Year ended 31 December 2021					
Cost					
At start of year	38,586,880	32,869,940	61,634,421	2,513,129	135,604,370
Additions	4,185,865	1,004,255	6,013,321	-	11,203,441
At end of year	42,772,745	33,874,195	67,647,742	2,513,129	146,807,811
Depreciation					
At start of year	34,127,256	16,098,840	22,862,319	1,518,351	74,606,766
Charge for the year	2,894,321	4,148,327	7,727,645	628,284	15,398,577
At end of year	37,021,577	20,247,167	30,589,964	2,146,635	90,005,343
Net book value					
At end of year	5,751,168	13,627,028	37,057,778	366,494	56,802,468

13 (a) Motor vehicles, furniture & fittings, and equipment

Bank	Computers Shs	Equipment Shs	Furniture and fittings Shs	Motor vehicles Shs	Total Shs
Year ended 31 December 2022					
Cost					
At start of year	42,772,745	33,874,195	67,647,742	2,513,129	146,807,811
Additions	5,049,540	2,813,289	7,928,139	-	15,790,968
Revaluation surplus	-	-	-	1,670,000	1,670,000
Disposal	(9,513,434)	-	-	(2,513,129)	(12,026,563)
At end of year	38,308,851	36,687,484	75,575,881	1,670,000	152,242,216
Depreciation					
At start of year	37,021,577	20,247,167	30,589,964	2,146,635	90,005,343
Charge for the year	1,722,398	4,853,497	10,274,038	366,494	17,216,427
Disposal	(9,513,434)	-	-	(2,513,129)	(12,026,563)
At end of year	29,230,541	25,100,664	40,864,002	-	95,195,207
Net book value					
At end of year	9,078,310	11,586,820	34,711,879	1,670,000	57,047,009
Year ended 31 December 2021					
Cost					
At start of year	38,586,880	32,869,940	61,634,421	2,513,129	135,604,370
Additions	4,185,865	1,004,255	6,013,321	-	11,203,441
At end of year	42,772,745	33,874,195	67,647,742	2,513,129	146,807,811
Depreciation					
At start of year	34,127,256	16,098,840	22,862,319	1,518,351	74,606,766
Charge for the year	2,894,321	4,148,327	7,727,645	628,284	15,398,577
At end of year	37,021,577	20,247,167	30,589,964	2,146,635	90,005,343
Net book value					
At end of year	5,751,168	13,627,028	37,057,778	366,494	56,802,468



13 (b) Right-of-use assets

	Group and Bank	
	2022	**2021**
	Shs	**Shs**
At start of the year	74,998,903	62,860,574
Additions	15,081,375	50,740,975
Charge for the period	(18,361,644)	(18,369,322)
Lease terminations	-	(20,233,324)
At end of the year	71,718,634	74,998,903

13 (c) Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Group and Bank	
	2022	**2021**
	Shs	**Shs**
At start of the year	80,496,652	70,384,897
Additions	15,081,376	46,709,997
Interest accrued	7,130,345	5,803,011
Payment of principal	(14,387,899)	(16,364,920)
Payment of interest	(7,130,345)	(5,803,010)
Lease terminations	-	(20,233,323)
At end of the year	81,190,129	80,496,652

The maturity analysis of lease liabilities is disclosed in Note 4.

14 Intangible assets

	Group and Bank	
	2022	**2021**
Cost	**Shs**	**Shs**
At 1 January	31,938,070	31,938,070
Additions	1,018,227	-
Additions -WIP	1,600,000	-
At 31 December	34,556,297	31,938,070
Amortisation		
At 1 January	25,341,415	19,169,796
Charge for the year	760,996	6,171,619
At 31 December	26,102,411	25,341,415
Book Value		
As at 31 December	8,453,886	6,596,655

15 Government securities

	Group and Bank	
	2022	2021
	Shs	Shs
Financial instruments at FVOCI	425,022,810	123,982,377
	425,022,810	123,982,377

The movement in investments is as follows:

Financial instruments at amortised cost		
At start of year	-	14,744,961
Purchases	-	-
Interest accrued	-	255,039
Disposals/Maturities	-	(15,000,000)
At the end of year	-	-
Financial instruments at FVOCI		
At start of year	123,982,377	-
Interest received	(5,867,781)	-
Additions	302,282,100	123,280,267
Fair value (loss)/gain	(8,287,636)	328,870
Accrued interest	12,913,750	373,240
At the end of year	425,022,810	123,982,377

16 Loans and advances

	Group and Bank	
	2022	2021
	Shs	Shs
Gross loans & advances	2,240,672,534	2,000,595,294
Provisions on loans and advances	(86,213,367)	(48,457,421)
Net loans and advances	2,154,459,167	1,952,137,873

The movement in provisions is as follows:

At start of year	48,457,421	58,846,787
Credit impairment charges	48,147,680	52,835,622
Loans written off	(10,391,734)	(63,224,988)
At the end of year	86,213,367	48,457,421

An analysis of changes in the gross carrying amount is as follows:

	Stage 1	Stage 2	Stage 3	Total
	Shs	Shs	Shs	Shs
Year ended 31 December 2022				
At start of year	1,880,181,642	27,025,155	93,388,497	2,000,595,294
Net financial assets originated or purchased	1,216,508,495	9,893,769	20,806,060	1,247,208,324
Financial assets derecognised	(596,490,647)	(9,619,648)	(399,441,594)	(1,005,551,889)
Net staging transfers	(442,180,305)	2,635,539	437,965,571	(1,579,195)
At end of year	2,058,019,185	29,934,815	152,718,534	2,240,672,534



16. Loans and advances (continued)

	Stage 1 Shs	Stage 2 Shs	Stage 3 Shs	Total Shs
Year ended 31 December 2021				
Gross carrying amount as at 1 January	1,358,132,462	11,291,174	100,769,670	1,470,193,306
Net new financial assets originated or purchased	570,785,761	22,841,215	-	593,626,976
Financial assets derecognised	-	-	(63,224,988)	(63,224,988)
Net staging transfers	(48,736,581)	(7,107,234)	55,843,815	-
Gross carrying amount	1,880,181,642	27,025,155	93,388,497	2,000,595,294

An analysis of changes in impairment allowance for loans and advances to customers in accordance with IFRS 9 is as below:

	Stage 1 Shs	Stage 2 Shs	Stage 3 Shs	Total Shs
Year ended 31 December 2022				
At start of year	(4,728,266)	(1,077,947)	(42,651,208)	(48,457,421)
Net transfer & remeasurement of ECL	1,279,349	190,895	(32,607,160)	(31,136,916)
Net new financial assets originated	(7,756,246)	(929,839)	(8,324,679)	(17,010,764)
	(6,476,897)	(738,944)	(40,931,839)	(48,147,680)
Financial assets derecognised	-	-	10,391,734	10,391,734
At end of year	(11,205,163)	(1,816,891)	(73,191,313)	(86,213,367)
Year ended 31 December 2021				
At start of year	(3,209,242)	(572,253)	(55,065,292)	(58,846,787)
Net transfer & remeasurement of ECL	1,848,741	(14,583)	(50,810,904)	(48,976,746)
Net new financial assets originated	(3,367,765)	(491,111)	-	(3,858,876)
	(1,519,024)	(505,694)	(50,810,904)	(52,835,622)
Financial Asset derecognised	-	-	63,224,988	63,224,988
At end of year	(4,728,266)	(1,077,947)	(42,651,208)	(48,457,421)

Below is an analysis of the collateral held as at year end.

2022	Gross loan balance Shs	FSV value of collateral Shs	Coverage
Unsecured	1,600,639,998	-	0%
Land & buildings	326,867,981	1,713,810,500	100%
Vehicle	219,705,248	596,829,500	100%
Chattel Mortgage	91,460,195	323,653,699	100%
Shares	1,762,829	4,223,000	100%
Fixed Deposit	202,400	400,000	100%
Property Mortgage	33,883	650,000	100%
Total	2,240,672,534	2,639,566,699	-
2021			
Unsecured	1,373,833,301	-	0%
and & buildings	312,315,699	1,212,553,000	100%
Vehicle	223,014,128	508,718,100	100%
Chattel Mortgage	89,886,712	361,275,272	100%
Shares	1,545,454	5,223,000	100%
Total	2,000,595,294	2,087,769,372	

16 Loans and advances (continued)

Below is a split of the gross loans as at the year ends.

	Group and Bank	
	2022	2021
	Shs	Shs
Gross loans & advances	2,238,755,309	1,988,814,298
Overdrafts	1,917,225	11,780,996
Total	2,240,672,534	2,000,595,294

17 Other assets

	Group		Bank	
	2022	2021	2022	2021
	Shs	Shs	Shs	Shs
Prepayments	15,396,410	7,080,819	15,396,410	7,080,819
Prepaid taxes	52,790,994	40,249,947	52,790,994	40,249,947
Accounts receivable	21,426,563	10,313,783	18,515,446	10,313,783
Due from related party (Note 24 (d))	-	3,703,477	1,338,098	3,703,477
Prepaid ATM cards	553,200	1,200,000	553,200	1,200,000
	90,167,167	62,548,026	88,594,148	62,548,026

18 Cash and deposits with other banks

	Group		Bank	
	2022	2021	2022	2021
	Shs	Shs	Shs	Shs
Cash at hand	16,205,784	31,339,423	16,205,784	31,339,423
Current account balances with other banks	152,855,688	143,409,021	152,855,688	143,409,021
Term deposits held with other banks	374,109,179	499,392,708	374,109,179	499,392,708
	543,170,651	674,141,152	543,170,651	674,141,152

Placements with other banks have original maturities of less than 90 days.
The weighted effective interest rate for placements with other banks was 13.44% (2021: 12.64%)

19 Customer deposits

	Group and Bank	
	2022	2021
	Shs	Shs
Current and demand accounts	502,870,049	817,370,708
Savings-accounts	1,015,505,109	358,879,507
Fixed deposit accounts	1,331,800,942	1,327,990,079
	2,850,176,100	2,504,240,294

20 Other liabilities

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Excise and stamp duty	1,042,080	366,309	1,042,080	366,309
Leave accrual	2,597,606	2,597,606	2,597,606	2,597,606
Other liabilities and accrued expenses	24,323,757	16,819,465	21,916,484	16,819,465
	27,963,443	19,783,380	25,556,170	19,783,380

21 Share capital

	Group and Bank	
Number of ordinary shares	**2022**	**2021**
Authorized shares @ Shs 20 per share	35,000,000	35,000,000
Issued and fully paid:		
At 1 January	34,150,000	30,500,000
Paid up during the year	680,000	3,650,000
At 31 December	34,830,000	34,150,000
Value of shares		
Authorized shares @ Shs 20 per share	700,000,000	700,000,000
Issued and fully paid:		
At start of year	683,000,000	610,000,000
Paid up during the year	13,600,000	73,000,000
At end of year	696,600,000	683,000,000

22 Deferred income tax

Deferred income tax has been computed at the rate of 30% (2021: 30%) and is attributable to the following items:

	Group		Bank	
	2022 Shs	2021 Shs	2022 Shs	2021 Shs
Excess of depreciation over wear and tear allowance	6,122,125	5,628,375	6,111,456	5,628,375
Expected credit losses	25,864,010	15,228,130	25,864,010	15,228,130
Accumulated tax losses	85,069,189	112,839,332	84,938,815	112,839,332
Other provisions	3,791,368	(1,854,504)	3,791,368	(1,854,504)
Provisions on OCI items	2,486,291	(98,661)	2,486,291	(98,661)
Net deferred income tax asset not recognised	(123,332,983)	(131,742,672)	(123,191,940)	(131,742,672)
	-	-	-	-

22 Deferred income tax (continued)

	Group		Bank	
	2022	2021	2022	2021
	Shs	Shs	Shs	Shs
At start of year	132,107,747	96,126,598	131,742,672	96,126,598
Over / (under) recognition of deferred income tax in prior years	3,308,922	40,029,968	3,298,649	40,029,968
Charge to other comprehensive income	2,584,952	(98,661)	2,584,952	(98,661)
Credit to profit or loss	(14,200,028)	(4,315,233)	(14,434,333)	(4,315,233)
At end of year	123,801,593	131,742,672	123,191,940	131,742,672

The net deferred income tax asset has not been recognized on the basis that there is uncertainty as to the availability of sufficient taxable profits in the foreseeable future against which the unused tax losses and deductible temporary differences could be utilized.

23 Related parties and related parties transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Several transactions are entered into with related parties in the normal course of business. These include loans, deposits, and foreign currency transactions. The Bank enters transactions, arrangements and agreements involving subsidiary, directors, senior management, and their related concerns in the ordinary course of business.

(a) Loans due from shareholders and employees

	Group		Bank	
	2022	2021	2022	2021
	Shs	Shs	Shs	Shs
Shareholders	-	460,921	-	460,921
Employees	77,065,536	63,424,928	77,065,536	63,424,928
	77,065,536	63,885,849	77,065,536	63,885,849
Interest income earned	4,834,989	5,784,606	4,834,989	5,784,606
Weighted average interest rate	8.00%	8.00%	8.00%	8.00%

(b) Deposits received from shareholders and employees

Employees	2,678,865	4,592,235	2,678,865	4,592,235
Shareholders	511,049,119	548,099,040	511,049,119	548,099,040
	513,727,984	552,691,275	513,727,984	552,691,275
Interest expensed	21,323,750	8,704,575	21,323,750	8,704,575
Weighted average interest rate	9.50%	9.50%	8.08%	8.08%



24 Related parties and related parties' transactions (continued)

(c) Key management and directors' remuneration

	Group		Bank	
	2022 Shs	**2021 Shs**	**2022 Shs**	**2021 Shs**
Remuneration to key management	26,234,904	23,726,600	26,234,904	23,726,600
Directors' emoluments	8,708,149	3,558,816	8,523,984	3,558,816
Post-employment benefits	-	3,559,140	-	3,559,140
	34,943,053	30,844,556	34,758,888	30,844,556

(d) Due from related party

	Bank	
	2022 Shs	**2021 Shs**
Caritas Bancassurance Intermediary Limited	1,338,098	3,703,477

These balances have been included as part of other assets under note 17.

Only transactions with related parties are on terms and conditions similar to those applicable to other customers unless were stated otherwise.

24 Investment in a subsidiary

Below is a summary of the subsidiary shareholding, country of incorporation and principal activity at 31 December 2022.

	2022 Shareholding %	**2021 Shareholding %**	**Country of incorporation**	**Principal activities**
Caritas Bancassurance Intermediary Limited	100%	25%	Kenya	Insurance brokerage

Effective 1 January 2022, the Bank entered into an agreement with the other three shareholders of Caritas Bancassurance Intermediary Limited to transfer 75% of the shareholding to the Bank at Shs 75,040. A summary of the movement in the investment is as follows:

	2022	**2021**
Investment in Caritas Bancassurance Intermediary Limited	**Shs**	**Shs**
At start of year	24,960	24,960
Acquisition of 75% shareholding	75,040	-
Additional equity injection	4,900,000	-
At end of year	5,000,000	24,960

25 Statutory reserve

The statutory reserve relates to the excess provisions for impairment of loans and advances as computed in accordance with the Central Bank of Kenya regulations over provisions for expected credit losses as computed in accordance with International Financial Reporting Standards. The statutory reserve is not distributable.

26 Events after the reporting year

There are no events after the reporting year that require an adjustment or disclosure in the financial statements.

OUR SERVICES

SEGMENTS

Personal Banking

Micro Business Banking

Small Enterprise Banking

Agribusiness Banking

Institutional Banking

Investment Group Banking

Bancassurance



RETAIL BANKING PRODUCTS

Current & Savings Accounts

Nawiri Savings Account

Maono Savings Account

Imarisha Junior Account

Baraka Business Current Account Caritas Pamoja Account

Salary Account

Loan Products

- Salary Check Off loan
- Salary Finance Loan
- Mshahara Loan
- Boresha Biashara Business Loan
- Imarisha Kilimo Loan
- Jitegemee Business Loan
- Asset Finance Loan
- Hekima Education Loan
- Rent Milele Loan
- Plot Purchase & Construction Loan

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APPLY TODAY!



CARITAS PAMOJA PROGRAM

Caritas Pamoja program is designed to create awareness, generate new business, retain business and deepen relationships mutual growth. The program is designed to create a strong network of lead generators from trusted and credible members of staff of SHGs, SHG members, secretariat staff of Caritas Nairobi and other lead generators drawn from other programs who may be formally introduced by Caritas Nairobi.

Value Added Products and Services for Active Self Help Group Members

Caritas Pamoja Account

- Free internal transfers
- 50% OTC withdrawals at branches.

Jitegemee Micro Business Loan

- Loan tenure is maximum of 36 months
- Flexible Interest rates
- Maximum unsecured amount is Kshs 500,000.
- Use of mixed securities for loans such as savings, guarantorship, business and household Chattels.

Imarisha Kilimo Loan

- Loan tenure is maximum of 36 months.
- Affordable Interest rates
- Financing Dairy Farmers for working capital, purchase of cows and construction of cow sheds.
- The bank through it bank assurance to provide requisite insurance policies.

Boresha Biashara Business Loan

- Loan tenure is maximum of 48 months.
- Flexible Interest rates.
- Flexible appraisal and collateral requirements.

Solidarity Group Loan

- Finance up to 8x total group savings for investment in land and property.
- Land and property will be used as security
- Chama to demonstrate consistent savings for 6mths

Plot Purchase & Construction Loan

- Up to 80% financing for Plot Purchase
- For rural land, up to 70% financing
- Max tenure of 8 years with option for increase tenure to 10 years for construction
- Benefits of due diligence on property vendors.
- Upto 90% financing for Construction Loan

Asset Finance

- Up to 90% financing for brand new units and 80% financing for second units for popular models.
- Flexible Interest rates
- Security- Joint registration
  Motor vehicles to be fitted with car track devices for entire loan tenure
- Access to Insurance Premium financing



CEO David Mukaru (far left), Chairman Patrick Kariuki, Rt. Rev. Bishop Celophas Oseso, Nakuru Deputy Governor David Kones at the Nakuru Branch Grand Opening



Celebrating 40 years of Caritas Nairobi at the Leaders Annual General Meeting



Caritas MFB at the Clergy meeting at Our lady of Consolata Parish Kahawa Farmers

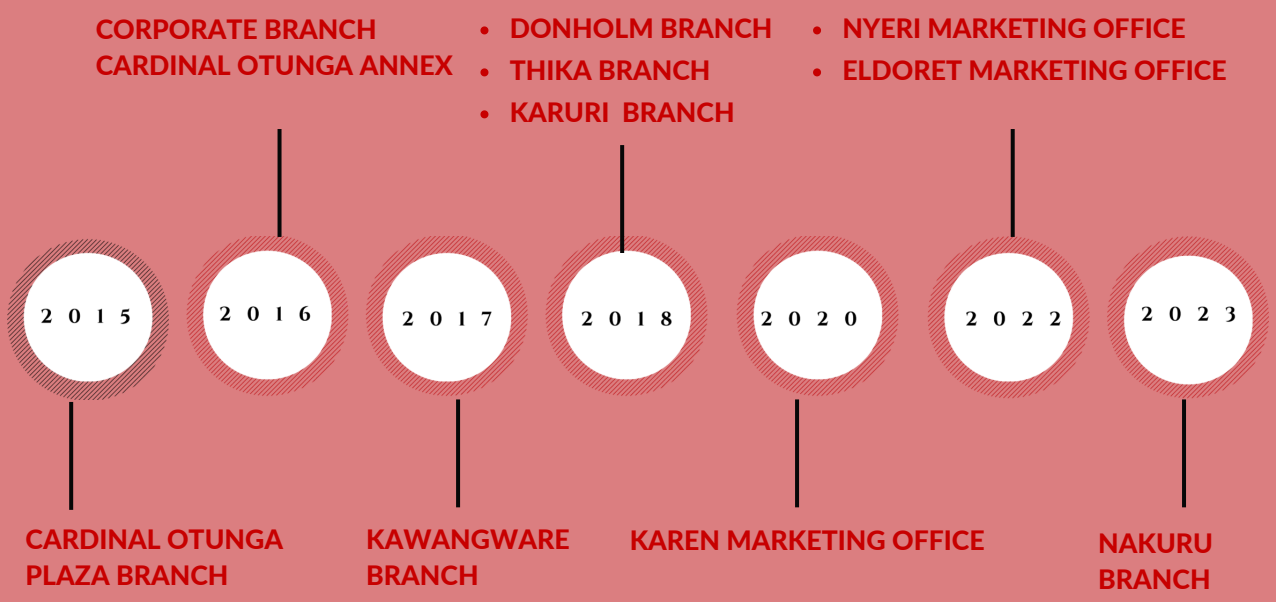


CEO-David Mukaru and Caritas MFB Team receiving an award At Think Business Awards (2023)



Caritas MFB Trophies & Certificates Think Business Awards (2023)

FOOTPRINT

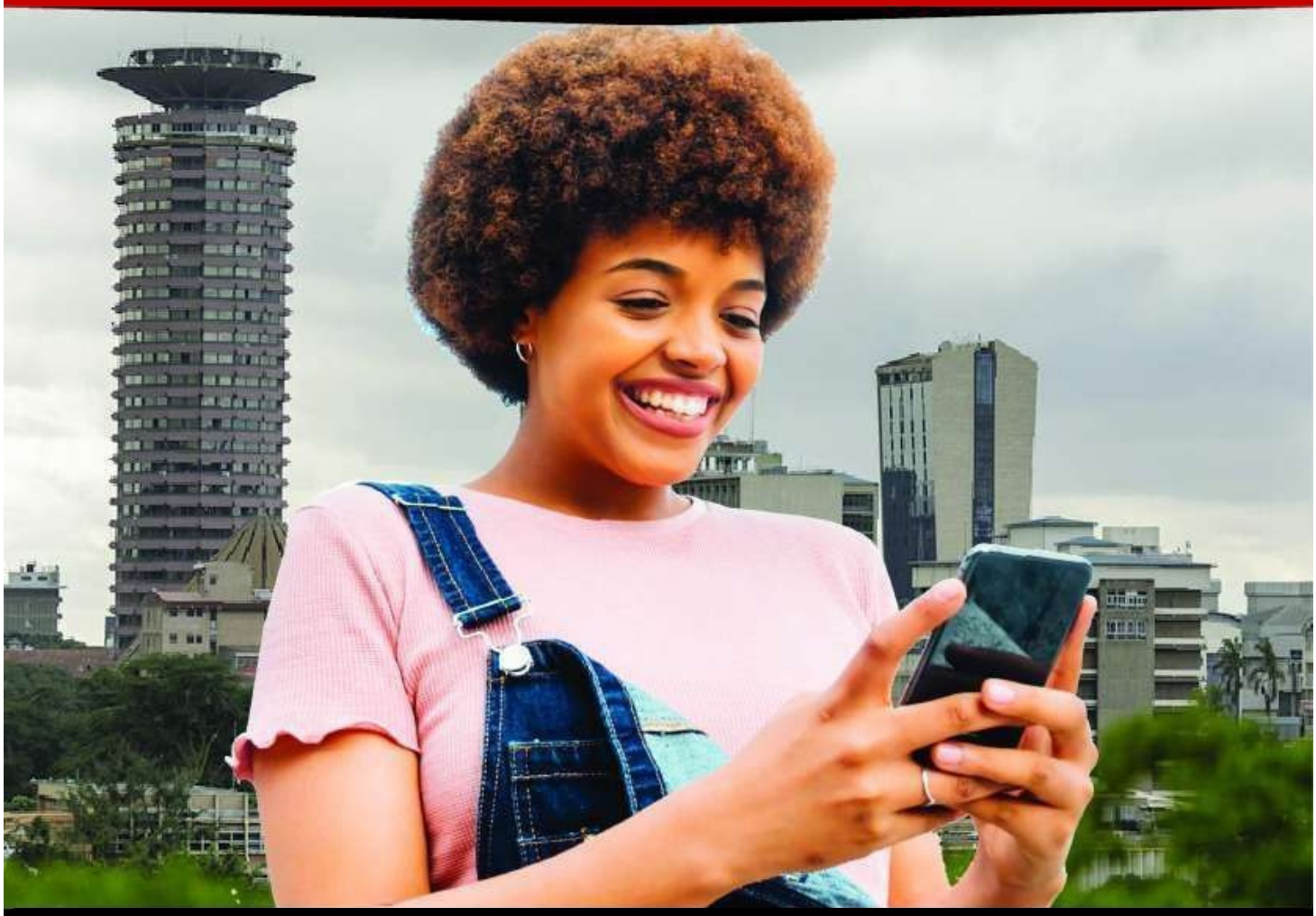


Currently, we have physical presence in,

- Cardinal Otunga Plaza (Retail Banking)
- Cardinal Otunga Annex (Corporate Branch)
- Kawangware
- Donholm
- Thika
- Karuri
- Karen Marketing Office
- Nyeri Marketing Office
- Eldoret Marketing Office
- Nakuru

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